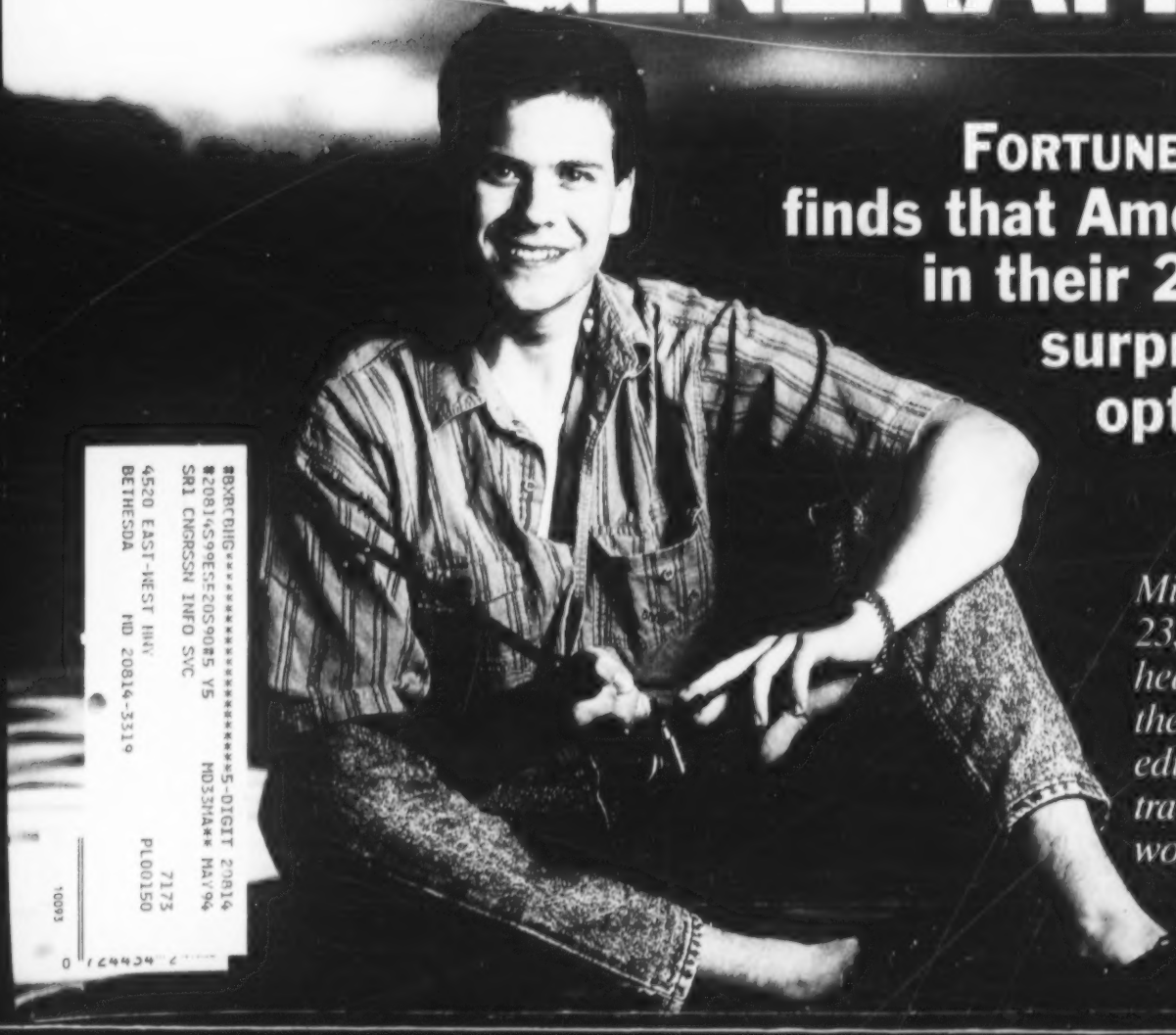
ECONOMY COMES BACK • BIGGEST PRIVATE U.S. COMPANY • FREQUENT FLIERS' TIPS

JULY 13, 1992 $3.95

FORTUNE

THE UPBEAT GENERATION

A new FORTUNE survey finds that Americans in their 20s are surprisingly optimistic



Michael Konyk, 23, has a head start on the new dream: education, travel, and work he enjoys.

#BXRCBUG*****************5-DIGIT 20814
#20814S99ES5205985 Y5 MD33MA** MAY94
SR1 CNGRSSN INFO SVC
4520 EAST-WEST HWY 7173
BETHESDA MD 20814-3319 PL00150
10093
0 164434

JULY 13, 1992

VOL. 126, NO. 1

FORTUNE

THE SOCIETY/COVER STORY

ABOVE: Jim and Kim Malin at home in Wyoming with daughters Maggie and Katie. Photo by Karen Kuehn (Matrix).

COVER: Konyk, photographed by Alan Levenson, exemplifies his generation's sense of freedom.

"People my own age kind of make me nervous. We haven't had our moral fiber tested as much as the people who came before us." 42

THE UPBEAT GENERATION 42

Surprise! A FORTUNE poll says working Americans in their 20s are optimistic about their careers and financial prospects, and expect to live just as well as their parents. What explains their optimism? A different view of the American dream: not the accumulation of material objects, but the acquisition of intangibles—a rich spiritual or family life, a rewarding job, the chance to help others, and the opportunity for intellectual enrichment. *by Alan Deutschman*

18-MONTH FORECAST

THE ECONOMY COMES BACK 56

Leaving behind three years of stagnation, recession, and halting recovery, the economy is finally entering a period of recognizable expansion. Growth will continue over the next 18 months at a sustainably moderate pace. *by Vivian Brownstein*

THE WINNERS AND LOSERS 62

Sure, it's the slowest recovery in memory. But most industries are getting at least a shot at growth and are making the best of it. A sector-by-sector analysis. *by Andrew Erdman and Sally Solo*

INNOVATION

PRODUCTS TO WATCH 81

AT&T's Smart Phone that lets you autodial your pals and check on your bank account, the Digital Compact Cassette and recorder, and Thomson's wide-screen TV and camcorders. *by Alison Sprout*

CORPORATE PERFORMANCE

INSIDE AMERICA'S BIGGEST PRIVATE COMPANY 82

Cargill, the grain trading dynasty, faces tumultuous change: a CEO from outside the family and a move into higher-value businesses. In a sharp break with precedent, the normally secretive managers of the second-largest diversified services company in the U.S. allow FORTUNE an extensive look inside. *by Ronald Henkoff*

COMPANIES TO WATCH 91

By steering clear of flash-in-the-pan growth after a leveraged buyout, International House of Pancakes has increased sales and maintained quality in its franchises. *by Richard S. Teitelbaum*

Also: The Money Store and Lifetime Hoan.

"Perot's tough stance would mean the party is over vis-à-vis Japan's predatory and protective trade practices." 12

"The market will peak later this year, followed by a bear market that lasts maybe nine months." 29

"Our competitors are foreign companies that have bankers and customers as owners. Their shareholders are patient." 82

"Nationalist sentiments, suppressed by the fictional notion of international socialism, are now resurfacing." 96

"I've never seen so many people trying different approaches to make one thing." 100

"He always learns from the mistakes of people like Donald Trump." 106

EXECUTIVE LIFE

WHAT FREQUENT FLIERS KNOW 92

They don't check luggage, of course, and they choose mind control over sleeping pills. They also have informed tastes in airlines, especially those that upgrade you to first class. *by Faye Rice*

EUROPE

'THEM' 96

Fleeing war, poverty, and repression, immigrants are flooding a Europe grown increasingly intolerant—and derailing the drive toward the unified market that multinational companies have been banking on. Closer political union among the 12 members of the EC now looks tenuous. An immigration policy is badly needed. *by Carla Rapoport*

TECHNOLOGY

THE RACE FOR A RARE CANCER DRUG 100

Taxol comes from a scarce tree and costs the earth to make. Bristol-Myers Squibb has already poured $100 million into developing it, but smaller outfits are right behind. *by Gene Bylinsky*

TECHNOLOGY TO WATCH 105

Interactive television lets you match wits with other fans calling a basketball player's next move—and maybe even advise a President Perot on policy. *by Gene Bylinsky*

COMPETITION

A BILLIONAIRE'S GLOBAL STRATEGY 106

Li Ka-shing, the richest man in Hong Kong, is shopping for bargains in the West. He's got a lot of cash, and he is investing in real estate, cellular phones, even show business. *by Louis Kraar*

DEPARTMENTS

EDITOR'S DESK 4

How FORTUNE got Cargill's go-ahead for a comprehensive corporate profile of the enormous multinational. Also: Which twin is the taxol?

INDEX 8

NEWS/TRENDS 12

Signs of life in the Northeast, Japan sweats a Ross Perot presidency, a surprising PC gender gap, hip families drive a Detroit hit, and free trade as whipping boy. Also: The wrong way to cut CEO pay, why Japan still loves Ray Josephs, Merrill Lynch plans lower fees, and Washington adds to the Fannie Mae family.

PERSONAL INVESTING 29

Looking for more than the skimpy returns from bank CDs and money market funds? Go for safety with some sizzle. Here's a guide to mutual funds for the fainthearted. *by Susan E. Kuhn*

Also: Are environmental stocks about to sprout? and Portfolio Talk with Robert Farrell, chief market analyst at Merrill Lynch.

LETTERS TO FORTUNE 36

FORTUNE PEOPLE 110

Where the toughest bosses end up: From Frank Lorenzo to Donald Rumsfeld, those chief executives sometimes identified as "mean bastards" aren't retiring. They're offering others the benefit of their experience. *by Laurie Kretchmar*

KEEPING UP 111

A radical with clout, bankers on the hot seat, more news about spineless animals, what pollsters know about Ross Perot (ask Mr. Statistics), and other matters. *by Daniel Seligman*

EDITOR-IN-CHIEF Jason McManus
EDITORIAL DIRECTOR Richard B. Stolley
CORPORATE EDITOR Gilbert Rogin
DIRECTOR OF NEW MEDIA John Papanek

TIME INC.
CHAIRMAN Reginald K. Brack Jr.
PRESIDENT Don Logan
EXECUTIVE VICE PRESIDENTS Donald J. Barr, Donald M. Elliman Jr., Robert L. Miller
SENIOR VICE PRESIDENT Richard W. Angle Jr.

FORTUNE

Founder Henry R. Luce, 1898-1967

MANAGING EDITOR Marshall Loeb
EXECUTIVE EDITOR Allan T. Demaree
ASSISTANT MANAGING EDITORS Walter Kiechel III, Ann M. Morrison
INTERNATIONAL EDITOR Donald D. Holt
ART DIRECTOR Margery Peters
PICTURE EDITOR Michele F. McNally
BOARD OF EDITORS Evelyn Benjamin, Vivian Brownstein, Charles G. Burck, Gene Bylinsky, Geoffrey Colvin, Julie Connelly, John J. Curran, Marta F. Dorion, Edmund Faltermayer, Susan Fraker, Keith R. Johnson, Richard I. Kirkland Jr., Louis Kraar, Kenneth Labich, Colin Leinster, Carol Junge Loomis, Myron Magnet, Peter Nulty, Peter Petre, Bill Saporito, Stratford Sherman, Lee Smith (Washington), Alex Taylor III
SENIOR EDITOR John Huey
ASSOCIATE EDITORS Kate Ballen, Rosalind Klein Berlin, Susan Caminiti, Alan Deutschman, Ann Reilly Dowd (Washington), Brian Dumaine, Alan Farnham, Jaclyn Fierman, Anne B. Fisher, Catherine Comes Haight, Ronald Henkoff (Chicago), Paul Hofheinz (Moscow), David Kirkpatrick, Susan E. Kuhn, Andrew Kupfer, Patricia A. Langan, Alicia Hills Mayer,, Rob Norton (Washington), Brian O'Reilly, Terence P. Pare, Nancy J. Perry (Los Angeles), Carla Rapoport (London), Faye Rice, Louis S. Richman, Lenore Schiff, Brenton R. Schlender (San Francisco), Patricia Sellers, Andrew Tobin Serwer, Joseph Spiers, Thomas A. Stewart, Shawn Tully, Wilton Woods, Ford S. Worthy
CONTRIBUTING EDITOR Daniel Seligman
REPORTERS Mark Alpert, Andrew Erdman, Mark D. Felet, Rahul Jacob, Cindy Kano (Tokyo), Sandra L. Kirsch, Laurie Kretchmar, John Labate, Stephanie Losee, Thomas J. Martin, Joshua Mendes, Antony J. Michels, Shelley Neumeier, Karen Nickel, Samuel Rubin (Washington), Jennifer Reese, William E. Sheeline, Sally Solo, Ricardo Sookdeo, Alison L. Sprout, Richard S. Teitelbaum, Rick Tetzeli, Emily Thornton (Tokyo), Jessica Skelly von Bruchel, Tricia Welsh
ART STAFF Joan Hoffman, Renee Klein, Lee F. McCarthy (associate directors), Linda Edelstein, Frances Fifield, Jean Held, Maria Keehan, Nai Lee Lum, Tony Mikolajczyk, Barbara R. Smyth (designers)
PHOTOGRAPHY Elizabeth Cheng Krist, Eric Godwin (assistant picture editors), Julie B. Ades, Maureen Duffy Berniger, James M. Tarrant
EDITORIAL OPERATIONS Donald G. Biglands (director), Carol Gwinn (copy chief), Charles Blackwell (deputy), J. Randall Sizemore (operations chief), David Sloan (deputy), Christopher E. Green (technology manager), Charles J. Attardi, Leslie Brenner, Jonathan Brown, Leon A. Douglas, Edith Fiveash Fried, Scott Kelliher, Daniel Lawrence, Michelle Lockhart, Frances Oakes, David V. Rile, Mary Alice Rudowsky, Sara Solberg, Dennis Williams, David Wray
IMAGING Richard J. Sheridan (manager), John F. Carnesi, Jeffrey W. Fulton, William Giersbach, Kyle Hislip, Angel A. Mass, Janet Miller, Richard K. Prue, Kate Sullivan, Paul Tupin
PRODUCTION Thomas C. Colapinco (makeup manager), Karen Rosenberg (deputy)
EDITORIAL FINANCIAL MANAGER Eileen Naughton
EDITORIAL ASSISTANTS Robin Blackburn, Bernadine Crawford, Anne Gut, Diane Hendrix-Colley, Kerry L. Hubert, Deborah L. Morris, Carolyn Sampson
EDITORIAL SERVICES Christiana Walford (director)

PUBLISHER James B. Hayes
CONSUMER MARKETING DIRECTOR Brian D. Wolfe
BUSINESS MANAGER Merida Welles
PRODUCTION DIRECTOR Guy Gleysteen
FORTUNE ENTERPRISES DIRECTOR John S. Needham
U.S. ADVERTISING SALES DIRECTOR C. Stuart Arnold
MARKETING DIRECTOR Leslie Gaines-Ross
PROMOTION DIRECTOR David L. Netz
PUBLIC RELATIONS DIRECTOR Emma C. Dockendorff

EDITOR'S DESK

INSIDE A SECRETIVE GIANT

Henkoff examines the biggest private company.

LONG-TERM thinking. It's a concept that has become all too rare at many American companies. Not so at Cargill Inc., the largest privately held corporation in the U.S. At age 127, this giant commodities conglomerate is still controlled by its founder's descendants. Their vision for the future extends well into the next century, an excellent example of managing for the long haul. Our only problem: The company almost never talks to the press.

Ronald Henkoff, our Chicago bureau chief, got a firsthand lesson in the art of long-term planning. He first approached Cargill, based in Minnetonka, Minnesota, in early 1989. It took three years of letters, conversations, even a formal discussion by Cargill's board, before he got the go-ahead for a comprehensive corporate profile.

The wait was worth it. Henkoff was given unprecedented access not only to top management but also to Cargill's operations in the U.S., Canada, and Brazil. Says he: "It was encouraging to find a company that prospers in basic industry, a part of the economy where America has supposedly lost its edge."

Henkoff also discovered a company in the midst of a tumultuous transition. One major challenge: keeping Cargill family hands. When Chairman Whitney MacMillan, a great-grandson of the founder, retires in three years, no member of either of Cargill's two controlling clans will be ready to succeed him. Says Henkoff: "The story became much more than an inside look at a secretive company. It's about a company that has deliberately set out to manage change, even if it has to alter the very formula that has led to its long success."

Henkoff's enlightening portrait of this grand dodecagenarian begins on page 82.

FORTUNE prides itself on accuracy, even where you can't see the difference. For Gene Bylinsky's story on the new cancer drug taxol (page 100), Jay Dickman photographed Hauser laboratories technicians holding what the company said was a sample of the expensive stuff. After the story was laid out, we learned that the "sample" was another white powder that *looks* like taxol. So, at considerable expense, we sent Dickman back. His second photo is almost indistinguishable from the first—but this time it's the real thing.

The fake taxol (left) and the right stuff

Marshall Loeb

MANAGING EDITOR

FORTUNE (ISSN 0015-8259), Published bi-weekly, with three issues in October, by Time Inc. Magazine Co., Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Reginald K. Brack Jr., President; Robert L. Miller, Treasurer; Peter M. Johnston, Secretary. Subscription rates, payments, and offers: U.S. possessions and Canada, one year $51.95; Mexico, one year $51.95; all other countries, one year $63.95. Second class postage paid at New York, NY and at additional mailing offices. POSTMASTER: Send address changes to FORTUNE, P.O. Box 60001, Tampa, FL 33660-0001. For subscription queries, call Customer Service at 1-800-621-8000. Time Inc. GST #R122781974.

Time Inc. Magazine Company is owned by subsidiaries of TIME WARNER INC., 75 Rockefeller Plaza, New York, NY 10019. Time Warner Inc. is a publicly traded company. FOR SUBSCRIPTION QUERIES, PLEASE WRITE TO FORTUNE, P.O. Box 60001, Tampa, FL 33660-0001 or call 1-800-621-8000. Time Inc. All rights reserved.

from a generation of people who had ideals and goals beyond contentment. Although he has proved right about the inner-city conflagration within months of publication, his optimism about the reaction of American society is, alas, doubtful. We'll watch it on TV and go "tsk, tsk."

SPENCER WELCH
Brewster, New York

WHAT'S SAUCE FOR THE GOOSE

Re "The Battle of the Bean Counters" (June 1): Banks made real estate investors like me write down the value of our real estate, thus deflating our net worth to the point of bankruptcy. How in the world can they claim they should be insulated from the application of this practice on their own balance sheets? If bank credit departments can discover all they need to know about their clients' net worth and liquidity from financial statements, bank stockholders should be able to do the same.

WILLIAM S. CHERRY
William S. Cherry & Co.
Galveston, Texas

WHERE CREDIT IS DUE

The In Situ Detoxifier technology at the Superfund site pictured in "Talk About Pay for Performance!" (May 4) was invented and developed by Frank Manchak Jr., president of Alternative Technologies for Waste, and not by Science Applications International Corp. as you report in the caption. SAIC evaluated the technology under an Environmental Protection Agency program.

MICHAEL E. MANCHAK
Vice President
Alternative Technologies for Waste
Santa Barbara, California

CORRECTIONS

In "What Business Thinks of Perot" (June 15) FORTUNE *misidentified the person who said, "... a dogmatic CEO like Perot would have difficulty functioning in Washington unless he could destroy Congress." The speaker was Jack Corn, CEO of Quaker State Corp.*

"What CEOs Really Make" (June 15) misstated Kroger's 1987–91 total return to investors. Because the company paid a large special dividend in 1988, the total return was 49.7% annually—No. 1 among the 200 companies listed.

The caption identifying the three people in the opening photograph of "Selling Advice to the Super-Rich" (June 29) transposed the names of David Horn and Charles Hopper.

FORTUNE *regrets the errors.*

Address letters to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Fax number: 212-765-2699. Letters may be edited for purposes of clarity or space.

If you're looking for help in rethinking your business processes, what you really need is a fresh perspective. And to get that, you need to look beyond the obvious choices.

Case-in-point: Hewlett-Packard Business Computer Systems.

Only HP has a complete line of RISC systems based on a single architecture. So they all work seamlessly together. And connect easily with your present systems.

HP also has close alliances with leading software and solutions suppliers. Together, they offer the kind of forward thinking that will help you manage change better in the future.

Call **1-800-637-7740, Ext. 3169** for more information, including specific case studies. (In Canada, call 1-800-387-3867.)

Think again.

HEWLETT PACKARD

Think again.

© 1992 Hewlett-Packard Company 5965-9211

THE UPBEAT GENERATION

Surprise! A FORTUNE poll says working Americans in their 20s are optimistic about their careers and financial prospects. They expect to live just as well as their parents. ■ *by Alan Deutschman*

COMPARING themselves with their parents, they think it's going to be harder for them to own a house. Harder to achieve financial security. Harder to provide for a family. Or to have enough leisure time—not that they can ever really have enough. What about making a lasting marriage? Harder. Paying for a child's college education? Don't even think about it.

They are the twentysomethings, and despite the powerful obstacles in the way of their upward mobility, they are a remarkably buoyant bunch. They, too, believe in the American dream—but in an end-of-the-century version.

For all the tough sledding they see ahead, 89% of young working Americans in their 20s are optimistic about their own careers and financial prospects in the next decade. A stunning 43% are *very* optimistic. Ninety-two percent think they live as well as or better than their parents did at the same age. When they reach middle age, this group expects to live at least as well as mom and dad do in *their* middle age. These are some of the findings of a nationwide poll of 500 21- to 29-year-olds who have been in the labor force at least a year, conducted for FORTUNE by the opinion research firm Clark Martire & Bartolomeo. Admittedly, their upbeat attitude may stem from the fact that they have already found jobs.

Even so, you might be thinking: What are these kids smoking? Sorry, baby-boomers, that was *your* generation. Drugs are a major threat to the American way of life, say 81% of the twentysomethings. They are pretty downbeat on America too. Only 31% think the U.S. will have a more important role in the world in the next ten years, and 55% are pessimistic about the nation's economic prospects over the decade.

So what explains their optimism, their seemingly naive faith in the inevitability of their own progress in a darkening world? The short answer: a different view of the American dream. Only 21% say the most important measure of living the good life is financial success, and a scant 4% believe that the criterion is owning a home. The rest are more concerned with the acquisition of intangibles—a rich family or spiritual life, a rewarding job, the chance to help others, and the opportunity for leisure and travel or for intellectual and creative enrichment. By these yardsticks, the young people figure they'll come out way ahead of mom and dad. They say it will be easier for them to lead interesting lives, to find enjoyment and accomplishment in their work, and to achieve personal fulfillment.

Q: Do you think you live better than your parents did at your age?		Q: When you are middle-aged, do you expect to live better than your parents did at middle age?	
A:	%	A:	%
Better	63	Better	51
About same	29	About same	40
Not as well	8	Not as well	9

SAMPLING ERROR: PLUS OR MINUS 4.5%

Granted, the overall zeitgeist in the U.S. has been moving in this same direction. In a Roper poll taken three years ago, more Americans said leisure rather than work was the "important thing" in their lives, for the first time since 1975. The baby-busters' attitudes are partly a reaction against the workaholism of the preceding generation, but even the aging boomers have been mellowing a bit.

Douglas Coupland, 30, author of the 1991 novel *Generation X*, cynically explains this shift in the national mind-set as the philosophy of *lessness*, "whereby one reconciles oneself with diminishing expectations of material wealth." But most twentysomethings aren't suffering from diminished expectations. Even though they esteem *wa*—the Japanese term for harmony—over wealth, they confidently expect to garner a fair amount of wealth too.

This is the "but not for me" generation—things may be tough all over, but *I* won't be affected. They don't make any connection between their pessimistic outlook for the overall economy and their optimism about their own well-being. For example, they believe that today a family of four needs $57,000 a year on average to live comfortably—that's 37% above the national median. Moreover, they confidently predict they will have a family income of, on average, $76,900 (in today's dollars) when they are 40. The reality is that not many will pull it off: Today only 10% of people filing income-tax returns earn $70,000 or more.

FORTUNE's poll was conducted in late April and amplified with follow-up interviews of 20 of the survey's 500 participants. What follows are some voices of today's young employees, neighbors, taxpayers, and voters. They are not running the country yet, but they will be—assuming they are up to the job—after the baby-boomers get their turn.

What is most reassuring about this generation is their appreciation of the fact that they live better now than their parents did at the same age. They recognize the sacrifices their parents made, and they are thankful for them. Twentysomethings know they grew up in relative prosperity if only because they remember the stories of struggle and hard times endlessly retold by parents who started out with much less. Call it the Mario Cuomo my-father's-bleeding-feet phenomenon.

Jim Malin, 29, a seventh-grade English teacher in Worland, Wyoming, recalls that his father had to quit medical school during

REPORTER ASSOCIATE *Kate Bullen*

PHOTOGRAPHS BY KAREN KUEHN—MATRIX

"We have two kids, two incomes, two vehicles, a nice house," says teacher Jim Malin, who coaches girls' volleyball, as does wife Kim, (second from top right).

the Depression and ended up working 34 years as a postman. Ronnie Nelson, 27, of Greensboro, North Carolina, enlarges on the theme: "Both sets of my grandparents were farmers, and my parents had to grow up through the Depression. My father served in World War II. When I was growing up, compared to them it was a piece of cake." Adds Robby Patterson, 29, a pipefitter from Newport, Arkansas: "I remember my dad telling me about the first time he saw a TV. I grew up with one." And unlike her parents, at least we don't live in outhouses," says Sabra Taylor, 24, an assistant loan officer from Miller, Missouri.

Moreover, their parents, whose Depression-inspired thrift enabled them to accumulate considerable savings, have the wherewithal to help the kids financially now—paying for college, cars and even condos—or later, by leaving them money. Tim Ring, 29, an engineer at Pratt & Whitney in West Palm Beach, Florida, tells how his father got out of the service in 1960 and left his native Ohio at age 51 to start from scratch in Florida. Says Ring: "It was tough for him—not having a steady income. At that age, I was still living at home, going to college. I had a nice car, could do what I wanted and spend what I wanted."

Ramon Guerra's father was a house painter and now owns a construction company and a bar-and-grill in Portland, Oregon. "My parents struggled for a lot of things and did their best to make sure I didn't have to struggle," says Guerra, 26, a sales supervisor for a regional bakery.

They were very helpful financially. When they were my age, their parents didn't have that luxury. Times were much tougher for the whole family." Five years ago Guerra's parents co-signed his mortgage on a $58,000, three-bedroom house near the home which he grew up in.

Two mysterious things say their lives have also been enriched by opportunities to travel that their parents never had. They are the children of the jet age, late-degree

Q: Compared with your parents, how easy will it be for you to ...

A:	Easier %	Harder %	Same %
Lead an interesting life	45	10	45
Find enjoyment and accomplishment in your work	40	13	47
Move up in a company	38	39	23
Find personal fulfillment	30	16	54
Enjoy a high quality of life	28	27	45
Own a single-family home	26	57	17
Own a business	25	55	20
Achieve financial security	24	54	22
Have enough leisure time	23	50	27
Provide for a family	22	51	27
Have a lasting marriage	20	43	37
Pay for child's college education	14	77	9

ulation genus, economy-class species. Rather than succumbing to societal pressure to find a serious job after college, stick with it, and build a career, legions of these young adults guiltlessly view their jobs as interludes between far-off adventures. Later this year Michael Konyk, 23, plans to quit the University Inn in West Lafayette, Indiana, where he is a sous-chef, to explore either the East or the West Coast, before heading off to work in Ukraine, where his parents came from. "I need change," he says. "I love change. It stimulates me."

Konyk typifies the enhanced sense of freedom, of possibilities, of control over decisions that will shape their lives that characterizes this generation. The men, many of whom have parents or older brothers who were drafted, are grateful that they haven't been forced to go to war. The women came of age in a time of vastly expanded possibilities for them. "I have a lot more choices and more opportunities now than my mom had when she was younger," says Lynette Harkleroad, 23, who works at a Wal-Mart in Altus, Oklahoma. Her mother was a homemaker in Edmon, Pennsylvania, near Pittsburgh.

Dan Quayle notwithstanding, young people feel they are no longer as stigmatized for what were once derided as "alternative lifestyles." Bonnie Rucker, 26, is an unmarried mother of a 6-year-old son. Says she: "Raising a child alone has been hard in every way—mentally, emotionally, and physically. But it's worth it." Rucker clerks at the 7-Eleven in Vinton, Virginia, and her mother, who lives a couple of doors away, watches the boy day or night, depending on Rucker's shift.

Even if their view of their situation today vs. that of their parents at a similar age is realistic, the twentysomethings are astoundingly blithe about the future. Why do they assume they will continue to prosper despite a slower-growth economy? It turns out that they are pinning their hopes on two forces: favorable demographics and education. Births in the United States dropped off a cliff after 1964, the last year of the baby boom, producing fewer new entrants for today's labor market. Says Ronnie Nelson, who operates a four-color printing press at L&E Packaging in Greensboro, North Carolina: "I see plenty of opportunity to move up in the company because of the age of some of the people who are now doing the management jobs and upper-level jobs. They are getting close to retirement age, and there aren't many baby-boomers to replace them. I'll have a pretty good leg up on the people they hire after me."

In their eyes, education is an even more powerful propellant for upward mobility. Many young people stayed in school longer than their parents did—31% of our sample completed some college, typically receiving two-year associate degrees from community colleges. Another 33% hold four-year or graduate degrees. They speak of learning both as the key to economic advancement and as an enriching influence that opened new realms of lasting interest for them. Michael Konyk minored in anthropology at Purdue University while equipping himself to rattle those pots and pans with a degree in consumer food science. "College really opens your mind," he says. "I was granted an education, and my parents were really supportive. They let my mind grow and wander. It's really rare that I'm bored."

DESPITE the lackluster economy, youngsters who have carefully eyed the job market and trained themselves for the workplace are taking advantage of what Peter Morrison, a demographer at Rand Corp., calls "the pervasive shortage of skills." Wendy Leonard, 22, made sure to take business and computer courses when she was in high school in Wake Forest, North Carolina. There she mastered Lotus 1-2-3 and several word-processing systems, and learned to program in Cobol. "I knew that computers were what I needed," she says. Leonard recently landed a clerical position at Lambert's Cable Splicing Co. in Henderson, North Carolina, which installs cable for the phone company. "There are a lot of jobs out here, and we don't have the qualified people to fill them," she says.

Bill Bommer, 25, who teaches organizational behavior at the Indiana University business school, says, "I ask my students to imagine if they didn't go to college, what they'd be doing—and nobody can even imagine it." But the reality is that even with only a high school education, twentysomethings believe they can reach positions of considerable independence and responsibility by dint of conscientious effort. While she was in high school, Lynette Harkleroad

Konyk plans to quit his job and travel: "I need change. I love change."

Whatever the Nielsens do, "We won't be any happier than we are now. Buying things isn't going to make us happy."

worked part time at the McDonald's in Leechburg, Pennsylvania. When the Air Force stationed her husband, Jeffery, in Altus, her letter of recommendation from the fast-food chain got her a job at Wal-Mart, where she has worked for the past four years. She started out as a checker, then became a Universal Product Code clerk—scanning items, making sure the prices on the labels were right. Two years ago she was promoted to department manager in charge of greeting cards.

As they push to exceed their parents' attainments, Americans are more likely to return to school later in life. During the 1980s, U.S. colleges and universities saw an influx of so-called nontraditional students older than the usual 18- to 24-year-olds. Harkleroad will likely be one of this crowd. She plans to use her Wal-Mart profit sharing—which could be worth about $10,000 when it fully vests in three years—to pay for an 18-month or two-year degree, then to become a medical secretary. Similarly, Bonnie Rucker is thinking about going back to school to study to be a paramedic: "I like the business field, but there's only so far you can go with it," she says. "I want to get into a worthwhile position—something that makes me feel good about myself." She hopes to attend a community college in Virginia for the training she needs.

IF MORE EDUCATION and better demographics don't fully explain the under-30s' sanguine view of the long run, then perhaps the explanation is heredity. As Alexis de Tocqueville discovered a century and a half ago, a mania for self-improvement is an integral part of the collective American psyche. "Without optimism, you don't have anything," says Bonnie Rucker, who currently earns $6.05 an hour.

That optimism is reinforced by their experience in the labor force. The under-30 set is surprisingly content with their work: 80% are satisfied with the progress of their careers so far, 81% consider themselves very or extremely productive, and 62% have already discovered what they want to do for a career. An impressive 85% say their attitude toward their jobs has stayed the same or become more positive since they began working full time. When asked how they feel on a typical day at work, the No. 1 answer was "respected" (cited by 86% of those polled). Other top responses: "happy" (85%) and "accomplished" (82%). Only 19% felt "exploited" or "depressed."

The most important aspect of a job is "a company or supervisor who treats you with respect as an individual," followed by job security. Security probably ranks so high because the young people entered the work force during a time of redundancy, recession, and restructuring. Some of Tim Ring's acquaintances at Pratt & Whitney, which has a lot of defense business, were laid off as a result of Pentagon cutbacks. Ring is well aware that he was spared largely because he works on the space shuttle rather than a military contract.

"It's hard to get a full-time job here," says Lisa Guagliano, 22, who works two night shifts a week as a nurse trainee at Millard Fillmore Hospital in Buffalo. "They've cut a lot of positions and have lots of part-timers. It's really hard to get into the department you want." Positions are filled based on experience and seniority, and Guagliano must compete with legions of nurses in their 30s and 40s. She wants to specialize in cardiology and hopes to get the training and experience she needs from a stint in the Army as soon as she passes her licensing exams early next year: "I'm young—what's four to six years?"

Typical of many baby-busters, Guagliano wants a career where she can make a contribution to society. She decided to become a nurse because she was hospitalized at age 3 for kidney problems caused by exposure to toxic waste when her family lived near

Love Canal. She was in and out of hospitals until she was a teenager, and she says, "Medicine looked like it would be really rewarding. Nurses saved my life on several occasions."

Layoffs at big companies are encouraging more and more young workers to gravitate to smaller outfits. A recent survey of college students by Right Associates, a Philadelphia consulting firm, found that 32% prefer to work for companies with 100 or fewer employees, vs. 23% in 1990.

Consider the case of Ronnie Nelson, the printing press operator at L&E Packaging, which makes tags and labels for clothes such as Levi's jeans and Lacoste shirts. He worked for seven years in the same job at a division of giant Avery Dennison, the office products manufacturer that went through a big restructuring last year. Four months ago he followed his former boss to L&E. "It's been a pretty bad situation in the printing industry," he says. "A lot of companies have folded—and a lot have so much overhead they can't make the profit they need." He says his positive attitude toward work "has 100% to do with" being at a smaller, more competitive concern.

Q: The most important measure of living the good life is . . .

A:	%
A rich family life	33
Financial success and security	21
A rich spiritual life	16
Having a rewarding job/career	10
Helping others	6
The opportunity for leisure and travel	6
Owning a home	4
Intellectual/creative enrichment	3

On average these folks work a 45-hour week, and they'd like to cut that back to 39. Only 18% say they work harder than their parents did. But if they are really so upbeat about their work, why do they shrink from putting in long hours? Isn't work supposed to be the "hedonism of the middle class," as essayist Barbara Ehrenreich wrote in *Fear of Falling*? Not necessarily. Twentysomethings want the job to be satisfying but not to dominate their existence. "I'm not going to work my life away," says Lynette Harkleroad. "My family and I come before work does. I'll be at work when they need me, but I'm not going to die there."

Sure, work can be fun, but so is softball. A lot of young people sound like Ronnie Nelson. In one breath he says, "The easiest way to have an interesting life is to be happy with what you do." Then in the next, "I play a lot of golf and softball. I don't have to have the extra money to make my life interesting."

To the younger generation, "having a good time" is a legitimate goal. Four nights a week Lisa Guagliano hangs out at the Pleasure Dome, a huge bar and mecca for the younger crowd in Niagara Falls. There she competes in bikini contests or dons a Velcro-covered suit and hurls herself at a Velcro wall where, miraculously, she sticks. She peels herself off and hops into a translucent spaceball, a plastic sphere that spins and simulates the giddy feeling of space flight. Sometimes, before she heads to the Dome, she goes bungee jumping, bouncing on an elastic cord while hanging over a cliff near Niagara Falls. "It's the world's biggest thrill," she says. The biggest? "Well, pretty close."

"I see just how brilliant Americans can be," says Tim Ring, a test engineer for the space shuttle.

WHEN THIS GROUP is asked which is more important to them, their personal lives or their careers, the former wins hands down—64% to 36%. Not surprisingly, one-third consider a rich family life as defining the good life. They herald a back-to-basics movement: Once again, marriage is for keeps. Although they acknowledge that it's gotten harder to make a union endure in a high-pressure, two-paycheck world, 94% expect to get married (or already are) and 87% plan to be married only once. And they want to spend plenty of time with their kids. Many saw their parents break up when the divorce boom began in the 1970s. Work was all to a generation that knew what it was like to be out of work. Family is all to a generation that knows what divorce is.

They see marriage more as a source of companionship and support and less as a response to economic necessity or societal pressure. "My parents didn't have a lot of common interests," says Beth Nielsen, 29,

who lives with her husband, Todd, a lawyer, in Creston, Iowa. "My dad was a sportswriter for the Creston *News Advertiser*, gone four or five nights a week. He worked so much that when I was younger, I don't remember taking family vacations together." Beth would like to have three children and thinks that the holidays and three-month summer vacations she enjoys as a substitute grade-school teacher will make it easy for her to spend time with them.

In contrast to her mother, who married at 19, Beth was 27 when she wed, and she and Todd share a number of interests. Both are laid back and enjoy golf, tennis, and jazz. "We're very much alike," she says. "When my parents married, I don't think people thought about finding someone who was like themselves. In the long run our relationship will be much richer."

Buying a home has always been the natural next step for married couples starting a family. It still is. Jim and Kim Malin, who are both English teachers, together earn about $49,000 annually. They have two daughters, Maggie, 6, and Katie, 2, and in 1990 they bought a $70,000 house in Worland, Wyoming. This year Ronnie Nelson and his wife, Kelly, plan to break ground on a three-bedroom ranch-style house on an acre of land in Greensboro, North Carolina. Total cost: $84,000.

Q: How optimistic are you about your career and financial prospects in the next ten years?

A:	%
Optimistic	89
Pessimistic	11

Q: How optimistic are you about the nation's economic prospects in the next ten years?

A:	%
Optimistic	45
Pessimistic	55

Because Americans are getting married later and later—45% of men and 31% of women are still single at 29—some are tempted to buy a house before tying the knot. Tim Ring, who is single, is trying to buy a house and needs to come up with a $10,000 down payment to qualify for a $100,000 mortgage. He has money put by but figures he'll have to tap into the company savings plan, which is really meant for retirement. Like 57% of his age cohort, Ring thinks it will be harder for him to own a single-family home than it was for his parents. After all, they bought their first house with $250 down.

But owning a home is no longer the cornerstone of the American dream. House lust smacks of the sort of conspicuous materialism that baby-busters dislike. Though renters Beth and Todd Nielsen plan to buy a house once Beth gets a full-time position, "no matter what we buy or whatever we do, we won't be any happier than we are now," she says. "If we're not happy now, buying those things isn't going to make us happy."

On balance, the twentysomethings sometimes appear to represent a sort of existential cocooning or failure to engage the real world. They have never been up against a big challenge, like a war. The Persian Gulf conflict is already fading from memory: Only 31% of this generation say that global political and military unrest is a big threat to the American way of life.

"People my own age kind of make me nervous," says Jim Malin. "We haven't had our moral fiber tested as much as the people who came before us. We never lived through a draft. What would we do? Would we turn and run?" His father served with the Navy in Manila during World War II; his mother fled the Netherlands when her hometown was destroyed by the Nazis; one of his brothers fought in Vietnam.

Q: Have you discovered what you want your career to be?

A:	%
Yes	62
No	38

Q: How satisfied are you with the progress of your career so far?

A:	%
Satisfied	80
Dissatisfied	20

Unlike the Sixties youth movement, which cohered around an us vs. them view of adults, today's young people have an odd and disturbing disdain for their own generation, perhaps revealing an insidious sense of discomfort or uncertainty about their own beliefs. For instance, consider their views on their own work ethic. They admit,

Nurse trainee Lisa Guagliano competes in bikini contests at this bar. Her mom, Jean, drives her home.

Says pressman Ronnie Nelson: "I see plenty of opportunity to move up in the company."

a little self-righteously, that their career success takes a back seat to their personal fulfillment, but now listen to their voices as angst-filled generational self-criticism sets in. "I'm not really sure about the work ethic of people my age," says Jim Malin. "Today, if you ask someone to take out the garbage, it's like asking them to swim across the Atlantic." Adds Ramon Guerra: "Everyone wants to be there on payday but doesn't want to work all week."

Q: How likely are you to be working for your present company in five years?

A:	%
Likely	65
Not likely	35

Q: How likely are you to be laid off in the next five years?

A:	%
Likely	15
Somewhat likely	29
Not likely	56

Wayne's World, the popular film based on a series of TV sketches, may speak for some of these folks. Wayne and Garth are 20-ish and still live with their parents, amusing themselves while failing to "get a life." Wayne collects hairnets and name tags from his various short-lived factory jobs. Now switch from *Wayne's World* back to the real world and listen to Ramon Guerra: "Most of my buddies from high school haven't changed a lot—they go from job to job and wait to party on the weekend. Just making enough money to pay the rent and get by, not too worried about the future. I'm pretty much the only one in my circle who's married with children."

Nor is the under-30 set particularly interested in keeping up with the news. A 1990 Times Mirror study, *The Age of Indifference*, found that this generation "knows less, cares less, and reads newspapers less" than any generation in the past five decades. Only 30% of 21- to 34-year-olds said they "read a newspaper yesterday" and 41% said they "watched TV news yesterday."

Q: What is a big threat to the American way of life?

A:	%
Drugs	81
Troubled educational system	74
Damage to the environment	73
Crime	72
America's economic malaise	52
Foreign economic competition	45
Racial problems	38
Global political and military unrest	31

Says Malin: "I'm afraid that people my age and younger seem real apathetic about what's going on in the world. A lot of them don't ever look at the front page of the newspaper and kind of forget what's going on outside of their lives."

Their attitudes toward national and world affairs spring from personal experience and direct observation. "I have a hard time understanding spending billions and billions on defense and then having education cutbacks," says Ronnie Nelson, whose wife, Kelly, teaches disabled children.

Tim Ring belongs to the 8% sliver who are very optimistic about the U.S. economy, and his attitude springs directly from his experiences at work. He earns around $30,000 a year at the Pratt & Whitney plant in West Palm Beach testing and developing high pressure oxygen turbopumps for the space shuttle's main engine. "I see the latest in American technology in my job. I deal with engineers who have graduated from the top universities across the nation. I just see how brilliant and knowledgeable Americans can be when they want to be. I don't see the Japanese sending astronauts up into space."

But certain laments came up again and again in the interviews: America is going downhill. We spend too much on defense,

YOU KNOW YOU'RE A GOOD MANAGER. HOW DO YOU RATE AS A LEADER?

Find out in Leadership

An important new video seminar presented by Professor John Kotter, Harvard Business School.

Leadership provides practical, results-oriented techniques that will benefit top managers throughout your organization.

You'll see how to • Strengthen your own leadership skills — no matter what their current level • Energize peers and associates to overcome obstacles • Create a corporate culture that nurtures leadership.

Call today for your free brochure on this essential corporate resource.

800-227-7703

Or FAX us your request at

617-247-9091

FORTUNE MAGAZINE
Video Seminars

Full Leadership seminar $2,000. Highlight tape $50.
A Nathan/Tyler Production • 535 Boylston Street
Boston, MA 02116

©1991 The Time Inc. Magazine Company and Nathan/Tyler. All rights reserved. FORTUNE and FORTUNE Magazine Video Seminars are trademarks of The Time Inc. Magazine Company.

not enough on education; too much on foreign aid, not enough on domestic problems like homelessness and hunger.

"Bush hasn't done a very good job—he's more interested in foreign affairs than here where we're at," says Bonnie Rucker. "People are going hungry in our own country." Echoes Lynette Harkleroad: "We give a lot of money to foreign countries for stupid reasons, and we don't take care of those problems in our own country." These people can see homeless families and drug sales in their own towns, but abstract issues such as foreign trade are hard to grasp.

Twentysomethings' disdain for their own generation is exceeded only by their antipathy toward the baby-boomers, whom they see as over-the-top materialists and remiss parents. For the most part, busters are not afflicted by what novelist Coupland called "boomer envy." Only 24% say that status or prestige is a "very important" aspect of a job. More attribute high importance to "working with people you like" (70%) than to salary (58%).

Ronnie Nelson, like 78% of his age cohort, says he wouldn't want to be like the baby-boomers: "The only thing the people I know in that generation—like my brother, Mike, who's 39—seem to be concerned with is having money. Not so much with being happy with what you do—just making the money. I really don't want to wake up in the morning and say, 'I don't want to go to work today, but the money's really good.' I want to say, 'I'm ready to go to work, and the money's decent.'"

This is a generation that values solid family lives, recognizes they are the beneficiaries of parents who had it tough, and feels they are treated with respect on a typical workday. Their heads are a little mixed up maybe, but their hearts are sure in the right place.

Q: How do you feel about the baby-boomers?

A:	%
Would like to be like them	22
Would not like to be like them	78

"My parents struggled and did their best to make sure I didn't have to," says Ramon Guerra.

THE ECONOMY COMES BACK

Leaving behind three years of stagnation, recession, and halting recovery, the economy is finally entering a period of recognizable expansion. Growth will continue over the next 18 months at a sustainably moderate pace. ■ *by Vivian Brownstein*

ALMOST unnoticed, the economy passed a landmark this spring. After a year of painfully slow growth, the nation's output of goods and services surpassed the last peak, reached in the summer of 1990. Whatever label gets attached to the previous 12 months of stopping and starting, only one word describes what is happening now. Welcome to *expansion*, 1990s style. It will be with us for at least the next 18 months.

Characteristic of the new decade, the mood remains subdued, smacking of disappointment, even though most things economic are going better than Americans generally expected. FORTUNE estimates that real GDP increased at a 2.5% annual rate during the first two quarters of the year, compared with the less than 2% we thought likely six months ago. The extra boost has helped ease the worst of the pervasive gloom. Consumers still register a low level of confidence, according to surveys by the Conference Board and the University of Michigan, but they are considerably less anxious than before.

Executives have also turned more positive in their outlook, if not exactly exuberant. Surveying 350 CEOs of fast-growing companies—naturally among the most upbeat—Coopers & Lybrand found that more than half still expect weak market demand to limit their expansion. But the number who were concerned had declined sharply in the past few months. And Joseph Duncan, Dun & Bradstreet's chief economist, reports an uptick of optimism in the 2,000 companies D&B surveys, especially manufacturers.

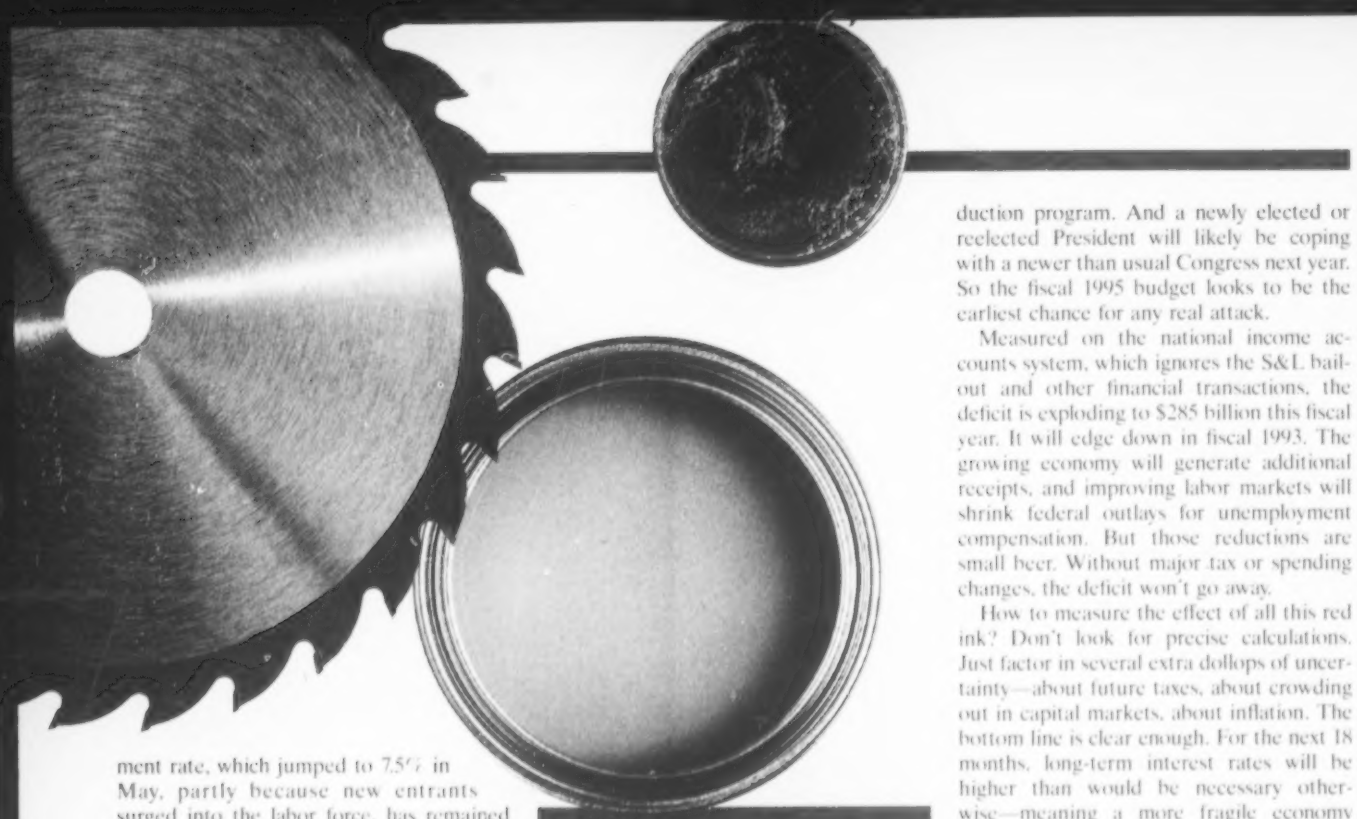
Most significant, attitudes about hiring have begun to change. FORTUNE's outlook for the next 18 months is predicated on businesses shaking off their fears and getting on with their lives. Jobs are a critical element in this process, and new reports confirm what we've been expecting. After two years of declines, employment began picking up at the start of the year. Many businesses realize they have to bite the bullet—employ more people or lose business to competitors. Factory workers are putting in longer hours than at any time since 1966 and are also racking up an almost unprecedented amount of overtime. Mitchell Fromstein, president of the Manpower Inc. temporary-help firm, says his latest quarterly employment survey indicates a sharp increase in permanent hiring plans among companies in nearly all industries and all regions.

We expect business to add just over two million employees, or 1.8%, during 1992 and again in 1993. But the gain is considerably less than the 3.5% average annual increase of the early 1980s. Restructuring and downsizing will continue to limit job growth for the next year and a half—and beyond. That's one reason consumers' confidence remains clouded.

Without the robust job creation that has fueled other expansions, growth in the economy will necessarily be moderate. FORTUNE expects real GDP to increase 2.1% this year, vs. last year's decline of 0.7%. Next year will show a 3% increase. Deconstructing these rates into the changes economists use to indicate trends, the economy will be moving along from quarter to quarter at a 3.3% annual rate during the second half of this year as businesses begin to restock shelves and catch up on purchases of equipment postponed during the recession. Part of the extra take-home pay that wage earners have pocketed since income tax withholding was reduced in March should find its way into cash registers too, but consumers satisfied some of their pent-up demand in a spending spree earlier this year. Real GDP will settle into a 3% growth pattern during 1993.

The increases in output will gradually tighten up labor markets. The unemploy-

PHOTOGRAPHS BY ELIZABETH WATT



ment rate, which jumped to 7.5% in May, partly because new entrants surged into the labor force, has remained lower than during the last recession. It will edge back down to 7% before the end of the year and drop nearly another percentage point during 1993.

While almost every sector will contribute to economic growth during the next 18 months—with the federal government the only significant exception—business investment will add the most strength. Businesses will remain cautious, but profits are improving. Companies have every incentive to spend for the new equipment and modernized facilities that will help them keep their competitive edge. Purchases of computers, industrial machines, heavy trucks, and the like will increase at an 8% annual rate during the next year and a half, vs. a decline of 1.5% over the past six quarters. Business construction will bottom out by next mid-year.

Homebuilders are expected to start nearly 1.4 million new units next year, up from a bit over 1.2 million in 1992, and homeowners will be spending more for renovations and additions to their old dwellings. Even state and local governments are in good enough shape to increase purchases of goods and services a bit. The volume of exports will continue to grow, by a 4.5% annual rate, though month-to-month changes will continue to be volatile. But the economic expansion will boost imports also. So the trade deficit won't improve.

The federal government will leave its mark on the economy in many ways, almost none of them positive in the short run. For example, defense cutbacks are likely to shave 0.7 of a percentage point off the growth in real GDP during the next year and a half. And consumers will get a small shock April 15. Lower withholding rates now mean some people will have to pay more taxes than usual, and others will get smaller refunds than they had counted on.

The continuing problem of the federal deficit won't get fundamentally better. FORTUNE assumes no important changes in policies during the time our forecast covers. With the election coming up, Congress is most unlikely to produce a major deficit reduction program. And a newly elected or reelected President will likely be coping with a newer than usual Congress next year. So the fiscal 1995 budget looks to be the earliest chance for any real attack.

Measured on the national income accounts system, which ignores the S&L bailout and other financial transactions, the deficit is exploding to $285 billion this fiscal year. It will edge down in fiscal 1993. The growing economy will generate additional receipts, and improving labor markets will shrink federal outlays for unemployment compensation. But those reductions are small beer. Without major tax or spending changes, the deficit won't go away.

How to measure the effect of all this red ink? Don't look for precise calculations. Just factor in several extra dollops of uncertainty—about future taxes, about crowding out in capital markets, about inflation. The bottom line is clear enough. For the next 18 months, long-term interest rates will be higher than would be necessary otherwise—meaning a more fragile economy and less growth.

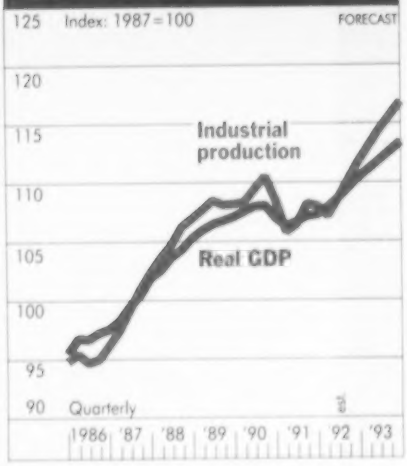
Inflation is likely to be the major disappointment in the year ahead. FORTUNE expects the rate as measured by the consumer price index to average 4.3% next year and move up to 4.5% by year's end. The Blue Chip consensus expects a smaller increase, to a rate of 3.7% by the end of 1993. And judging from comments by Chairman Alan Greenspan and other members of the Open Market Committee, the Federal Reserve Board appears to expect the rate to *drop*. Even inflation hawks on the committee have joined the reassuring chorus.

When central bankers tell you not to worry about inflation, something is amiss. Profits are improving, but not enough to lift margins anywhere near the levels business enjoyed in 1987 and 1988 before the recent stagnation-recession period squashed them. It will be hard to fatten margins by cutting costs. The string has run out on lower interest expenses, and wage rates will climb faster as labor markets firm up. So companies will feel pressed to raise prices. *continued*

THE OUTLOOK

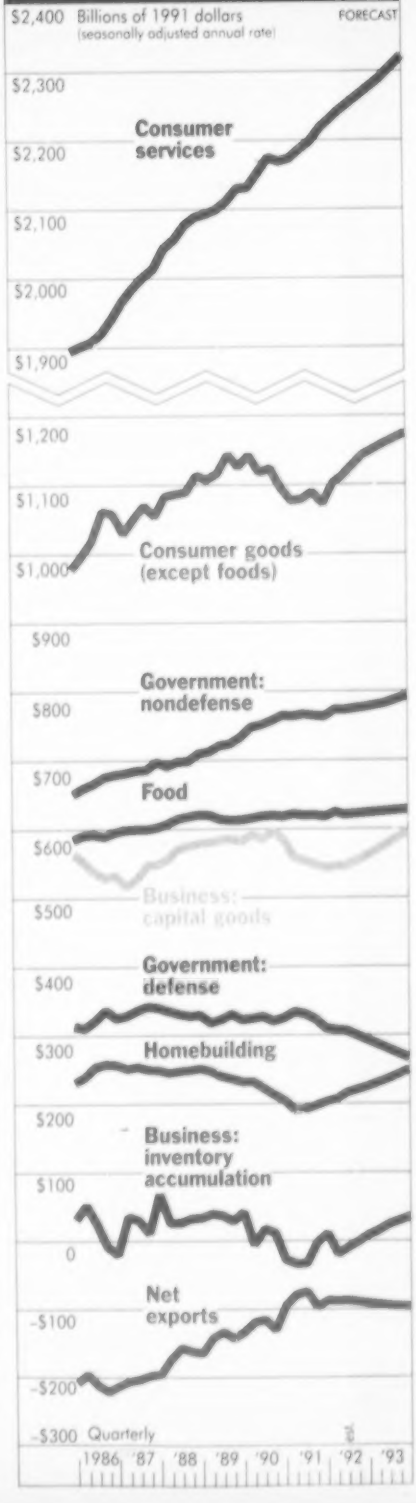
	1992	1993
Real GDP percent change	2.1%	3.0%
Consumer prices percent change	3.1%	4.3%
Unemployment rate end of year	7.0%	6.2%
Operating profits percent change	19%	14%

GROWTH

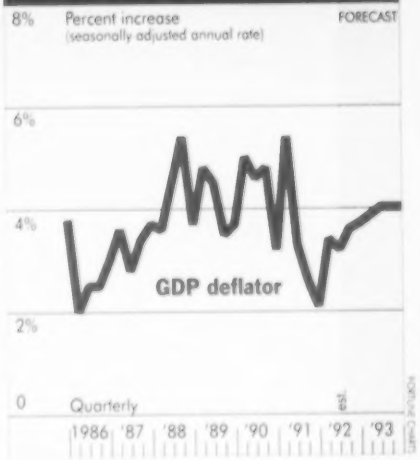


More spending for capital equipment, consumer goods, and homebuilding materials will push up industrial production. Exports will continue to help too, but imports will grow a touch faster.

GDP COMPONENTS



INFLATION



They'll have more latitude to do so. Many foreign companies are reluctant to go after more U.S. market share in a year charged with protectionism and are lifting prices. Demand will be strong enough to allow business to increase margins for the first time since early 1989, when the economy slowed to a crawl. The Fed's sanguine talk about lower inflation is no doubt aimed at making believers of the bond markets. It will continue to fall on deaf ears, and for good reason.

As it becomes clearer that inflation isn't disappearing, the Fed will step in to prevent more serious acceleration than we've outlined. It will begin to nudge up short-term interest rates before year-end. The federal funds rate, currently 3.75%, will move up to 5% or so by the end of 1993. Long-term rates won't move much if at all. Instead, the unusually wide premium over short rates will narrow.

Exciting sure isn't the right word to describe the outlook—try slow and plodding instead. But that's not a disparagement. A period of sustainable moderate expansion is just what the doctor ordered for the U.S. It will provide jobs for most of those who want them. It will keep managers hunting for ways to operate more effectively. And let's hope it will give policymakers time to turn to longer-term problems, such as education and health care, without the distraction of trying to shore up a stumbling economy. Best of all, it will put the recession firmly behind us and restore confidence.

■ **CONSUMER SPENDING: Slow but adequate.** Enough jobs and income will be generated to lift outlays at a 2.5% annual rate through the end of 1993—the best since 1988. Purchases of new cars and light trucks will soak up most of the spending power, though. People will have to crimp on other purchases, since their debt loads remain heavy and they will be paying off old loans even as they finance new cars. Excluding motor vehicles, spending will grow at a sluggish 2% rate through the end of next year. That will restrain overall economic growth, but it will be enough to keep the expansion going.

■ **CAPITAL SPENDING: New vigor for equipment.** Business outlays for capital equipment will grow at an 8% annual rate, providing strong support to the economy. Demand will be especially good for factory-floor machines that lift productivity. These include computers, one reason real spending on them will also rise. But auto-rental companies won't buy as many cars as they did last year because the Big Three have cut back on special fleet deals. Construction equipment and furniture will continue to suffer from the debacle in commercial construction. The huge excess of office, retail,

and hotel space will drag down ovefall growth in capital spending, as it has for the past three years.

■ **HOMEBUILDING: More.** The housing market improved a lot over the past year, helping to keep the economy moving. Further improvement is in store as growing numbers of potential buyers realize they won't lose their jobs and will, in fact, get small raises. These buyers face attractive mortgage rates and affordable homes. Prices have been rising modestly, but not enough to damp demand; to the contrary, the trend should spur lookers to buy in advance of further increases. It should also shore up the idea among buyers that housing is a good investment. Strong sales will in turn stimulate new building. Single-family starts will top one million in 1992 and reach nearly 1.2 million in 1993, vs. a dismal 1990 and 1991 when they dropped below 900,000 on average. Firming prices and eased job fears will also encourage current owners to spend more on remodeling, a huge market that accounts for more than a quarter of all dollars spent on residential building. In contrast, apartment construction will languish at a low level because many units already on the market remain vacant.

■ **GOVERNMENTS: Chilling out.** The federal deficit won't get any bigger during the next fiscal year, thanks to the expansion. Rising taxable incomes and corporate profits will boost receipts by 8%, vs. less than 2.5% this year. The deficit will actually shrink a bit except for payments associated with deposit insurance. Part of the expected bulge in those payments won't occur until next year, because of delays in closing out some failed thrift institutions.

The pressures of the election year are also forcing state and local politicians to keep a lid on tax increases and spending—a break for consumers, who lost spending power to last year's enormous tax hikes. But neither will governments provide much stimulus through jobs and wages. Instead they are getting their operating deficits under control. Public investment in infrastructure will rise smartly, however, because states and localities have already borrowed heavily to finance the projects.

■ **FOREIGN TRADE: A pause.** Despite the global slowdown, export volume will increase steadily over the next six quarters at about the same 7% rate of the past six. Latin American and other developing countries are replacing Europe and Japan as the major sources of growth. The deficit on trade in goods and services has shrunk from a peak of $143 billion in 1987 to a relatively small $25 billion annual rate recently, but now it will hold at about that level. U.S. companies and their foreign suppliers are so intertwined these days that just about every increase in exports pulls in more imports. And even though some producers continue to recapture domestic market share from foreign competitors, imports will increase as domestic demand improves.

■ **INTEREST RATES: The end of the line.** The next turn in short-term rates is likely to be up. The three-year drop in the federal funds rate, from a peak of nearly 10% to 3.75% lately, has run its course. The slow growth in M2 so far this year has frustrated the Federal Reserve. The money aggregate has fallen far short of the growth in nominal GDP (real growth plus overall inflation), undermining M2's role as a policy guide. Nevertheless, as nominal GDP growth heads above the M2 target range for 1992, the Fed will tighten anyway. Look for some small moves by year-end.

The increase in short-term rates should continue through 1993 as business expands borrowing for inventory and other working capital needs. But less than two percentage points of the past decline will be retraced by the end of the year. Long-term yields, such as the 8.5% on corporate bonds now, should stay about where they are. That will leave them about four percentage points above the 4.5% consumer price inflation we expect.

■ **WAGES, PRICES, AND PROFITS: Going up.** Wage rates will rise about 3.5% this year, not terrific but enough to generate real income gains. Next year's 4.5% increase, however, will just keep pace with prices. Hourly labor costs will advance 5% in 1992, vs. 4.5% in the past year, spurred by the rising cost of health and other benefits. But productivity gains, especially in manufacturing, will limit the bite. Cost cutting combined with greater leeway to raise prices will lift corporate operating profits 19% this year and 14% in 1993.

Consumer prices will increase some 3.1% in 1992. Measured by the broader GDP deflator, the rise will be a bit less. Next year, however, consumers will pay 4.3% more for the market basket of goods and services that make up the CPI. The deflator, which nets out import prices, will accelerate too, but to 4% next year. F

CHIEF ECONOMIST *Vivian Brownstein*
STAFF ECONOMIST *Joseph Spiers*
RESEARCH ASSOCIATE *Lenore Schiff*
FORTUNE's forecast is produced by this magazine's economists based on our own economic model.

INSIDE AMERICA'S BIGGEST PRIVATE COMPANY

Cargill, the grain trading dynasty, faces tumultuous change: a nonfamily CEO and a move into higher-value businesses. Should it consider going public?

■ *by Ronald Henkoff*

IF YOU ARE what you eat, then part of you comes from a 127-year-old company you may never have heard of. Cargill Inc., America's largest privately held corporation, is hardly a household name, but it touches nearly every household. Chances are good that it supplies the flour in your bread, the oil in your salad dressing, the concentrate in your orange juice, the beans in your coffee, the sweetener in your soft drink, the malt in your beer, the peanuts in your peanut butter, the cocoa in your candy bar, the salt on your table, and the steak on your barbecue.

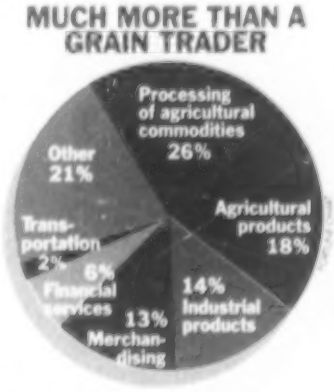
Cargill is enormous. With revenues last year of $49.1 billion, this giant commodities merchant is America's second-largest diversified services company, topped only by AT&T (1991 sales: $63.3 billion). Cargill's 47 businesses employ 63,000 people in 54 countries on six continents. As a privately held enterprise, Cargill is in a class by itself, nearly triple the size of America's next largest private company (see list).

In a sharp break with precedent, the normally secretive managers of Cargill have allowed FORTUNE an extensive look inside their mysterious multinational. The company and the two families who own it are in the midst of momentous changes. When Chairman and Chief Executive Whitney MacMillan, a great-grandson of the founder, retires in three years, none of his relatives will be primed to succeed him. For only the second time in Cargill's long history, leadership (though not ownership) will pass to nonfamily managers.

Over the years this unusual company has prospered by sticking with values that too many large public corporations have shucked off. At a time when most chief executives are obsessed with next quarter's earnings, Cargill's managers have a strategic vision that extends well into the next century. While other companies struggle with too much debt, Cargill boasts a balance sheet so conservative it can only be called old-fashioned. While employees at many FORTUNE 500 companies are angry at their bosses and disenchanted with their jobs, Cargill workers are so unabashedly enthusiastic that their sentiments border on boosterism.

The essence of Cargill's philosophy is patience. Take calculated risks, reinvest gains, and hang on for the long haul. Cargill often buys companies in downcast industries—like red meat, steel, and fertilizer—and then gradually turns them into moneymakers. Its measured approach doesn't produce many supernovas, but it is hard to argue with its record.

Cargill earned just $351 million in 1991, a paltry return of less than 1% on sales. Preliminary calculations for fiscal 1992, which ended May 31, show that profits surged 28% to $450 million. But even that record figure won't do much to improve the earnings ratio. Not to worry, says chief financial officer Robert Lumpkins: Commodities companies make money by rapidly turning over their inventories—15 times per year in Cargill's case. Also, the company's conservative accounting practices—including accelerated depreciation of assets—make the bottom line unnaturally thin. This year, predicts Lumpkins, Cargill will generate about $1.1 billion in cash flow, most of which will be reinvested or used for acquisitions. Over the past 50 years, net worth (or shareholders' equity) has grown from $11.6 million to $3.6 billion, a compound annual rate of 12.2%. The company remains on track toward its longstanding goal of doubling net worth every five to seven years.



How Cargill allocates its net worth

Cargill takes its perseverance abroad, to places as volatile as Brazil, as remote as Uzbekistan, and as xenophobic as Japan. It is the world's biggest grain trading company, the No. 1 processor of cocoa in Europe, the largest pet food producer in Argentina, and the first foreign company to set up an animal feed plant in Japan. This year in Brazil, Cargill will crush 1.5 million tons of oranges into frozen concentrate. The company's ships will carry the chilled citrus in bulk to Europe, North America, and Japan, where it will be reconstituted into 4.5 billion glasses of juice.

Most of Cargill's revenue still comes from trading. It handles 25% of America's grain exports, and it buys, sorts, ships, and sells just about everything else that comes out of the earth, including coffee, sugar, cotton, crude oil, hemp, and rubber. But the company now earns most of its profits from turning those commodities into something else. You wouldn't know it from a visit to the supermarket, but Cargill is America's third-largest food company, right behind

REPORTER ASSOCIATE *Ricardo Sookdeo*

CEO MacMillan at Minnetonka headquarters

PHOTOGRAPHS BY PETER SIBBALD

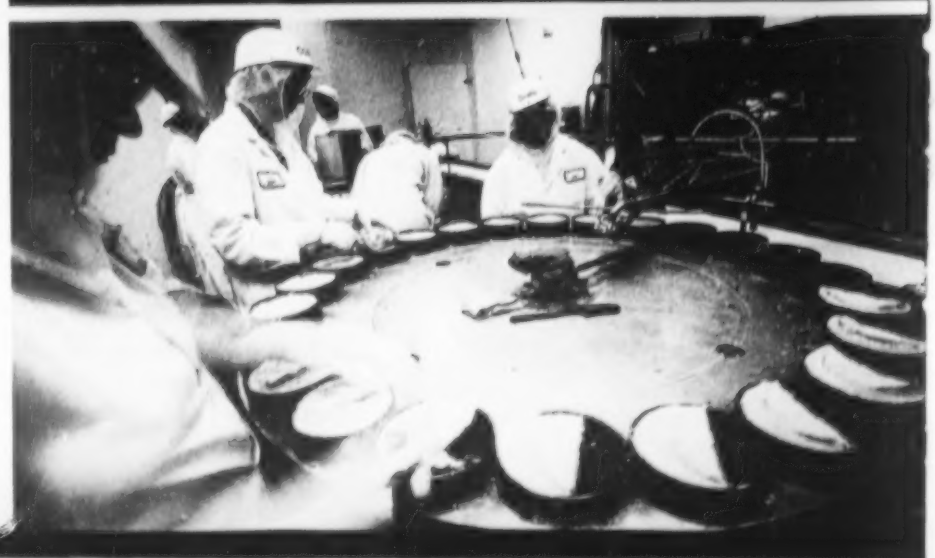
Philip Morris (owner of Kraft General Foods) and ConAgra, according to *Food Processing* magazine. Cargill doesn't make breakfast cereal or cake mixes or frozen dinners, but it does process the ingredients for the companies that do.

Its North Star Steel subsidiary is the eighth-largest producer in the country, supplying auto parts to Chrysler and engine parts to Boeing. Cargill Investor Services, based in Chicago, is a leading player on commodities exchanges worldwide, especially in the booming financial futures market, trading bond, currency, and stock-index contracts for blue-chip banks and companies.

FOUNDED BY William Wallace Cargill, the second-oldest son of an immigrant farmer, the company is still owned and managed by his descendants—the Cargills and MacMillans. These two Scottish-American clans, joined by marriage in 1895, are very rich (collectively worth more than $4 billion) and very reticent. Their executive office—a French-style château—is ensconced in an evergreen forest in Minnetonka, a quiet, old-money suburb of Minneapolis. The company produces no corporate advertising and discloses only a modicum of financial information—even to its bankers.

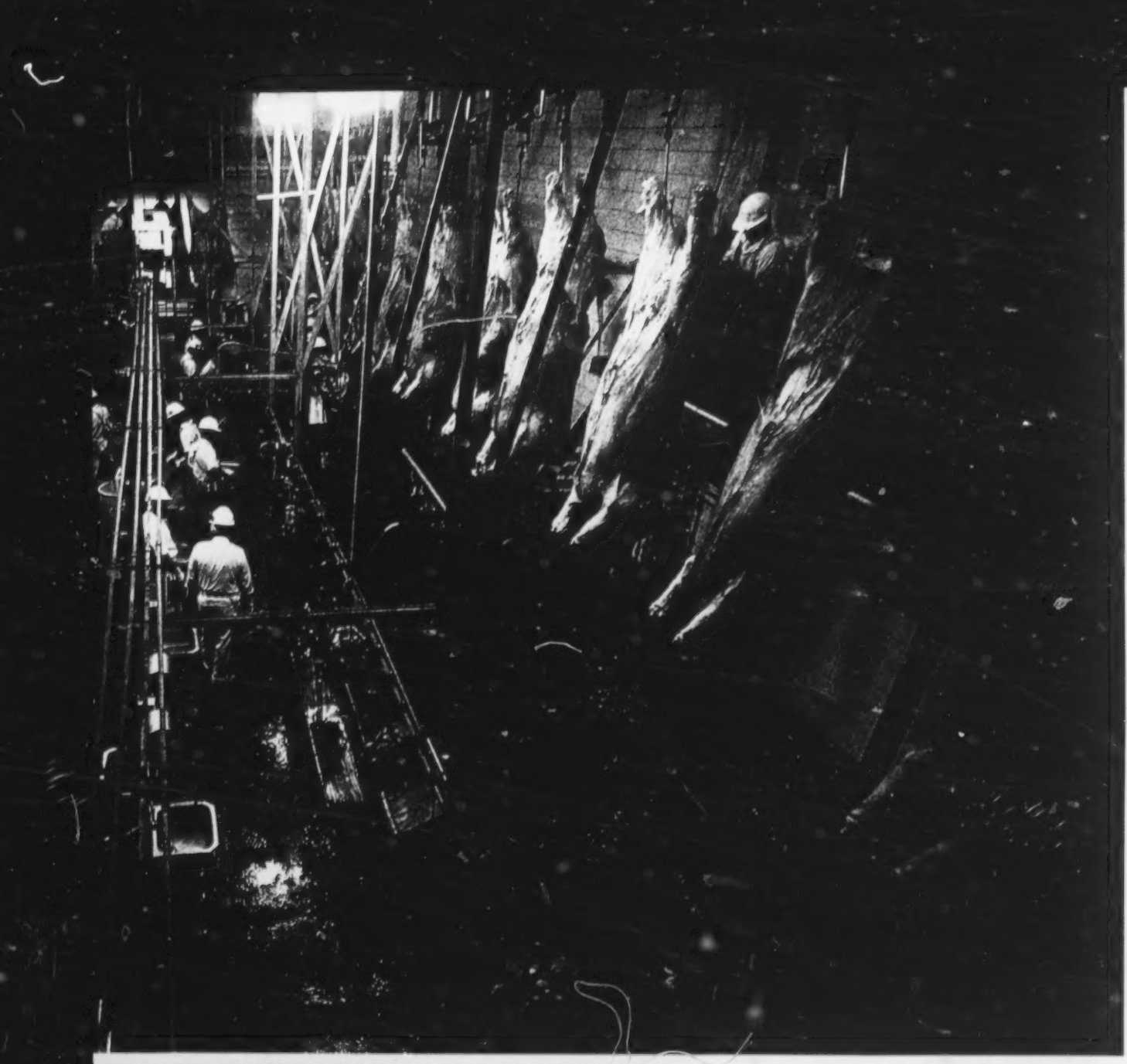
Nowhere in America is there a company so large that has remained in family hands for so long. Most home-grown firms fall apart after the death of the founding father; Cargill is still in the stirps after *five* generations. Think about it: The du Ponts no longer run Eleuthère du Pont's chemical company, the Fords no longer have a majority interest in Henry's automaker, and the Rockefellers bowed out of Standard Oil long ago—they don't even own all of Rockefeller Center.

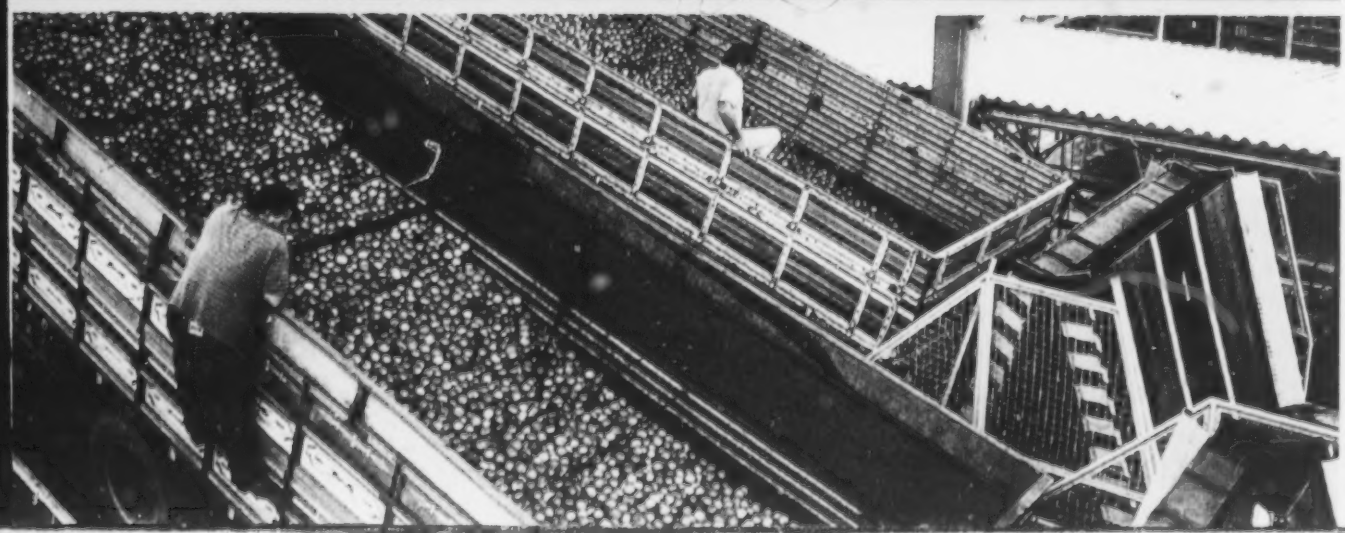
The Cargill saga began in 1865 in the frontier boomtown of Conover, Iowa, with a single grain warehouse and a singularly ambitious young businessman. W. W. Cargill, as he was known, was a middleman. He bought wheat from farmers, arranged for it to be sold in big urban markets, loaded it onto trains, and earned a commission for

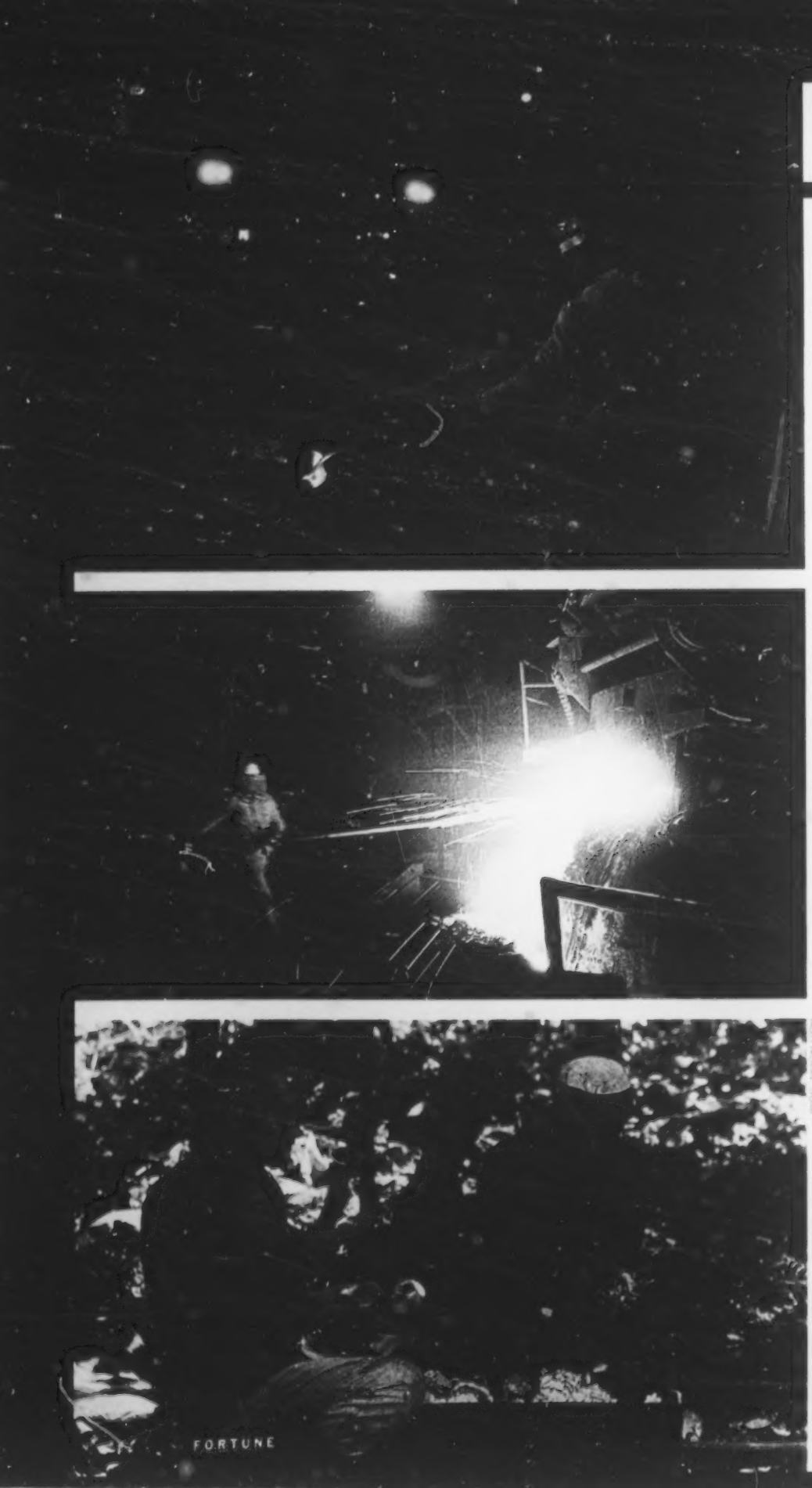


THE WORLD OF CARGILL

The photos here and on the following page illustrate Cargill's vast reach. In High River, Alberta, workers prepare beef carcasses that will be sliced and trucked to supermarkets. In Monticello, Minnesota, employees fry omelets for airlines and hospitals. In Uchoa, Brazil, oranges are gathered for concentrate.







his efforts. Cargill always hedged his bets, selling the grain forward on the futures exchange—a conservative approach that the company follows to this day.

A prototypical prairie entrepreneur, Cargill brought his three brothers into the business and expanded into barge towing, lumbering, and coal hauling. But he also speculated in real estate. When W.W. died in 1909, without a will, his company was essentially broke. A committee of creditors split Cargill into two pieces—one run by W.W.'s oldest son, Will, the other by a son-in-law, John Hugh MacMillan. Will, a spendthrift, oversaw the debt-laden land development operations from Valier, Montana. MacMillan, a stern, detail-minded manager, tended Cargill Elevator Co., the thriving Minneapolis grain business. Eventually both families bought out Will Cargill. The MacMillans have held the upper hand at Cargill ever since.

THE CURRENT CEO, Whitney MacMillan, now 62, has run the business for 15 years. A taciturn and cantankerous visionary who graduated from Yale, he hardly looks the part of a billionaire. He drives himself to work in an Oldsmobile, dresses in off-the-rack suits, and works in a spartan office. His only indulgences: tennis, golf, a one-ninth share of the Minnesota Vikings (actually held by his wife, Betty), and a cattle ranch in the Crazy Mountains of Montana, next to anchorman Tom Brokaw's spread.

MacMillan engages in a devil's advocacy style of management. He stakes out deliberately provocative positions and invites lieutenants to prove him wrong—a tactic that sometimes drives them nuts. Cool in public, MacMillan can be warm, even witty, in private. Recently, over cocktails with a small group of associates, he launched a debate on the provenance of the flush toilet, particularly the role played by one Thomas Crapper. (The English inventor, whose name lives on in, er, posteriority, did patent such a device but was not the first to do so.)

The chairman maintains a constancy of purpose that he sums up in a single sentence: "We will be the best at meeting the world's growing demand for basic goods

Cargill thrives on basic commodities. In Reserve, Louisiana (top), corn is loaded for export. In Monroe, Michigan, a steelworker fires up the furnace. And in Ilhéus, Brazil, laborers remove beans from cocoa fruit; Cargill will buy the beans and process them at a nearby factory.

and services." Despite Cargill's size and complexity, MacMillan remains a fervid believer in the advantages of private ownership. "Our competitors are foreign companies that have their bankers, suppliers, and customers as owners," he says. "Their shareholders are patient."

So are his, although not as patient as they used to be. Press reports have had it that Cargill's shareholders have been at each other's throats, demanding that the company either be chopped up and sold off or launched on the New York Stock Exchange. Not true. But the families and the company are in the early throes of a tumultuous transition. With MacMillan having to retire in three years, only two members of the next generation work at the company, and neither is considered old or experienced enough to succeed him. Austen Cargill II, 41, who holds a Ph.D. in fisheries ecology, is in charge of food safety. John Hugh MacMillan IV, 39, is a manager at Cargill's heating oil distribution subsidiary in Chelsea, Massachusetts.

As Whitney MacMillan leaves the scene, so too will nearly the entire top tier of management. The three relatives who sit with him on the corporate board are all approaching 70, mandatory retirement age for family directors. They are Whitney's brother, Cargill MacMillan Jr., a senior vice president until 1988, and two cousins—James Cargill, also a former senior vice president, and W. Duncan MacMillan, a top official at Waycrosse, the families' private investment advisory firm.

Also contemplating their pensions are Cargill's highest-ranking nonfamily executives—vice chairman William Pearce, President Heinz Hutter, and the two executive vice presidents, James Howard and Gerald Mitchell. For years these men—brothers, cousins, colleagues—have formed the nucleus of a 10 A.M. strategy session that meets over coffee in the château's cafeteria. Their bonds of collegiality cannot be replicated. Nor should they be. Says Robbin Johnson, vice president of public affairs: "This informal system of communication worked well for the current generation. But now we have more businesses and more geographies and more managers. You can't have five guys sitting around a coffee table running all this."

WHITNEY MACMILLAN'S most pressing task, as both paterfamilias and CEO, has been to ensure that the shareholders and the company remain in each other's thrall. There are now 75 heirs and heiresses. Most know next to nothing about crushing soybeans or milling corn. And until recently, many had a bad case of asset lock: too much net worth tied up in the illiquid shares of one very large company.

Last winter Cargill gave family members a chance to tender as much as 30% of their stock to an employee stock ownership plan for company workers. But a surprising thing happened: They sold only 17%. That put $730 million of stock into a trust that will be divided among Cargill's eligible U.S. employees. It also left MacMillan and his colleagues feeling quite pleased. Says vice chairman William Pearce, the polished lawyer who negotiated the ESOP: "The fact that the families tendered only 17% tells me there is a very stable relationship between owners and management."

To solidify that relationship, Cargill has expanded its board of directors. In May the council of elders elected two new members, both daughters of current directors and the first females on the board. Lucy MacMillan Stitzer, 31, is a Connecticut banker. Marianne Cargill Liebmann, 39, owns two Montana flower shops. The board also recruited two prominent Minneapolis businessmen as its first outside directors in 40 years: Winston Wallin, 66, former chairman of Medtronic, a manufacturer of medical devices, and Michael Wright, 54, chairman and chief executive of Super Valu Stores, a major grocery chain.

The new board members should bring fresh thinking to an inbred panel. Stitzer, for example, shares her elders' pride in the business but thinks the board needs new voices: "If you listen to the same people all the time, your ideas get old."

The whole notion of being a grain merchant is one idea that has passed its prime. The world grain trade peaked at 240 million metric tons in 1979 and has been in a sustained funk ever since. American merchants have been hardest hit. They captured the majority of the Soviet Union's new business in the 1970s, only to lose most of it for good after Jimmy Carter embargoed American grain sales following the in-

AMERICA'S LARGEST PRIVATELY HELD COMPANIES

COMPANIES	1991 SALES ($ billions)	BUSINESS	OWNERSHIP
CARGILL Minnetonka, Minnesota	$49.1	Grain trading, food processing, meatpacking	Cargill and MacMillan families
KOCH INDUSTRIES Wichita, Kansas	$18.0*	Petroleum refining and production	Koch family
UNITED PARCEL SERVICE Atlanta	$15.0	Package delivery	ESOP
CONTINENTAL GRAIN New York City	$14.1*	Grain trading, fertilizer, poultry	Fribourg family
CARLSON COS. Minneapolis	$9.3	Hotels, restaurants, travel agencies	Carlson family
M&M MARS McLean, Virginia	$7.5*	Candy bars and snacks	Mars family
NWA St. Paul	$7.5	Air transport	LBO partnership
BECHTEL GROUP San Francisco	$7.5	Construction, engineering	Bechtel family
GOLDMAN SACHS New York City	$7.0*	Investment banking	Partnership
R.H. MACY New York City	$6.8	Department stores	LBO partnership
ERNST & YOUNG New York City	$6.3*	Accounting, consulting	Partnership
PUBLIX SUPER MARKETS Lakeland, Florida	$6.2	Supermarkets	ESOP
KPMG PEAT MARWICK New York City	$6.0	Accounting, consulting	Partnership
PRITZKER FAMILY COS. Chicago	$6.0*	Hotels, restaurants, manufacturing	Pritzker family
SUPERMARKETS GENERAL Woodbridge, New Jersey	$5.7	Supermarkets, drugstores	LBO partnership

*FORTUNE estimate

They're Never Too Young To Learn The Facts Of Life.

And they want to learn from you, their parent.

As a parent, you need to know that the average age for first use of drugs is twelve.

Some children are using illegal drugs and alcohol much earlier.

To find out how you can teach your kids about the dangers of drug abuse, call **1-800-488-DRUG**. We'll give you the information you need to make a difference. And we'll send you our free guide to resources, *Fight Drug Abuse With Facts*.

Keep your kids off drugs. Call or write for the facts.

The American Council for Drug Education
204 Monroe Street
Rockville, MD 20850

the American Council for Drug Education

vasion of Afghanistan. Today some 50% of America's grain elevator and terminal capacity stands idle.

Cargill's future depends on its ability to move further up the value chain into processing. Says agricultural sector president Daniel Huber: "We can no longer differentiate ourselves by elevating a bushel of grain cheaper than anyone else. We need quality, we need customer service, we need marketing." *We need help.* For two years Cargill has worked with consultant McKinsey & Co.—that paradigm of new managerial paradigms—to immerse itself in synergy, teamwork, and empowerment.

The company seems to be learning its lessons. For example, ConAgra, Cargill's biggest customer (as well as one of its chief rivals), buys products from 18 Cargill divisions, including corn milling, salt, poultry, beef, citrus, and cocoa. This spring Cargill clumped its divisions into broad sectors and gave sales managers authority to sell more than one product at a time. Says Warren Staley, North American chief of staff: "We've had tunnel vision. We haven't worked worth a damn as teams across businesses."

"Cargill is a company with a lot of patience." Ah, there's that word again.

Within businesses, by contrast, Cargill has been practicing much of what McKinsey has been preaching for a long time. To wit:

■ **Give customers precisely what they want.** If you do, you can prosper even in an overcrowded, rusted-out business like steel. Cargill's North Star mini-mill in Monroe, Michigan, can turn out small batches of steel bars tailor-made to a client's exacting specifications. Monroe combines modern methods of quality management with a commodity merchant's ingrained attentiveness to cost. The plant, which has never lost money, is still charging General Motors the same prices for the same grades of steel as it did when it opened in 1983.

■ **Add value without spending a fortune on packaging, marketing, and advertising.** Leave that to the likes of Kraft, Sara Lee, and Heinz. Cargill's giant corn-milling plant in Eddyville, Iowa, can turn simple kernels of corn into a multitude of products—including fructose syrup for Coca-Cola's soft drinks, gluten meal for Ralston Purina's dog food, and citric acid sudsing agent for Lever Brothers' Wisk.

■ **Listen to employees.** Says meat sector president William Fielding: "The old style was management by fear. Now, if you want to beat your competition, you need better thinking and better people." Beef processing is a mature industry if there ever was one; per capita consumption in North America peaked in 1977. A worker suggestion that trims 10 cents off the cost of slaughtering a steer can save $500,000 per year.

Beef-packing plants are by nature smelly, disgusting places. But Cargill's facility in High River, Alberta, just south of Calgary, is surprisingly clean and bright. Every day 1,700 steers and heifers climb the "stairway to heaven"; at the top of the spiral ramp they get a sharp jab to the jugular. Then they are bled, beheaded, skinned, eviscerated, sawed, and sliced. As the carcasses move through the plant, any employee has the power to halt the line if he thinks something is amiss. Cargill, with just this one plant that it opened in 1989, has become the No. 1 beef packer in Canada.

■ **Take what you learn in one country and transfer it—very carefully—to another.** Foreign operations, where Cargill has 40% of its assets, are critical to its future. But when Cargill enters a big country, like Brazil, it starts small. The company arrived in Brazil 27 years ago, investing $9 million in a facility to develop hybrid seeds. As Cargill expanded, it plowed every cruzeiro it earned back into the business; no profits were repatriated. Today it has ten major product lines—including oranges, corn, soybeans, and cocoa—with a total net worth of $250 million.

Doing business in Brazil is like riding a *montanha-russia*, Portuguese for roller coaster. Inflation has *fallen* to about 23% per month, and the cruzeiro loses roughly 3% of its dollar value every day. Cargill must pay as much attention to managing its balance sheet as to managing its processing plants. Says Brian Hill, president of Cargill Brazil: "You can't be here if you're looking for short-term earnings. But Brazil has 150 million people and a major role in world agriculture. It's too big to ignore."

Brazil is a prime example of Cargill's "soft matrix," jargon for a system that melds geographic management with product line management. When Cargill decided to build a state-of-the-art corn-milling plant in

Uberlândia, 356 miles north of São Paulo, it flew in a bevy of in-house technical experts from the U.S. and Europe. They, in turn, relied on Brian Hill's country office to make sure they didn't fall on their duffs because they had miscalculated the market demand, exchange rate risk, or political climate.

Cargill views its presence in countries like Brazil almost as a mission. Says President Heinz Hutter, the architect of Cargill's Latin American strategy: "We want to fulfill a humanitarian function, to raise the standard of living." A pious platitude? Not at Cargill's cocoa-processing plant in Ilhéus, an impoverished seacoast town in the northeastern state of Bahia.

Isn't it time to at least consider taking Cargill public? "No," says Whitney MacMillan.

The company got off to a bad start in Ilhéus. The plant, built in 1982, was its first venture into cocoa processing. The managers soon discovered that crushing cocoa beans—which are highly susceptible to bacterial infestation—was much more complicated than crushing soybeans. The plant lost money for seven years, until engineers from Gerkens, a major Dutch cocoa processor acquired by Cargill in 1986, flew into Bahia and redesigned the entire operation.

For the fiscal year that ended May 31, the Ilhéus plant earned $1.3 million—at a time when world cocoa prices have been at their lowest level in 20 years. Other Ilhéus cocoa processors have laid off workers and shut down production lines, but Cargill is running at 100% capacity. Says assistant vice president Jos Van Broeckhuijsen: "We had a ten-year learning curve, which is very painful. Cargill is a company with a lot of patience." Ah, there's that word again.

Patience has its rewards, especially for Cargill's Ilhéus work force. The company pays $350 per month on average, six times the national minimum wage. Every employee receives benefits worth 80% of his salary. Cargill provides family health insurance, dental care, transportation to and from work, a daily hot lunch, and subsidies for children's schoolbooks. Says Jailson Carlos Silva, 28, a roasting oven operator: "Cargill can't solve all of Brazil's problems. But if we work hard and are loyal to the company, maybe we can guarantee our own futures."

Cargill's critics, a mix of rural activists and Naderites, see the picture differently. They argue that the company prospers primarily by exploiting the world's small farmers. They condemn Cargill for plying the family farmer with seeds, feed, and fertilizer (thereby inducing him to overproduce), buying his crops and livestock at rock-bottom prices, and lobbying Congress to enact laws that curb agricultural subsidies.

Cargill, which has been accused of gouging farmers and manipulating markets since W.W.'s days, scoffs at these charges. The company, after all, depends on a healthy agricultural economy for its own prosperity. It does campaign against subsidies, even though it is the biggest beneficiary of the U.S. government's agricultural export aid. Cargill believes it could do far more business in a truly free global market.

More recently Cargill has been reproached for neglecting worker safety and polluting the environment. In both areas it has taken steps that have won grudging respect from critics. Last year Cargill settled a case in which the Occupational Safety and Health Administration charged it with ignoring conditions that led to repetitive-motion injuries among workers at three U.S. poultry plants. The company paid $400,000 and promised to intensify an ergonomics program. In beef processing, Cargill was the first major company—back in 1989—to reach a broad agreement on safety with the United Food and Commercial Workers. The union gives Cargill mixed reviews. "We believe the company has put its best foot forward," says Deborah Berkowitz, the UFCW's safety director. "But there is still a lot of intransigence among plant managers at the local level."

THE COMPANY'S most notable insult to the environment came from Gardinier, a Florida fertilizer producer it acquired in 1985. Three years later Gardinier accidentally dumped 40,000 gallons of phosphoric solution into the Alafia River, which runs into Tampa Bay. The spill killed fish and other marine life. Local politicians, fed up with Gardinier's long record of environmental mishaps, demanded that the plant be shut down. Cargill settled a civil suit for $2 million and agreed to accelerate its $200 million program to upgrade the plant. Says Jan Platt, chairman of the Hillsborough County Environmental Commission: "I've been impressed. Cargill took heed of the criti-

We Get a Good Return on Our Investment.

©Joel Bennett

The Nature Conservancy takes a business approach to protecting our natural world. Each day in the U.S. we invest in over 1,000 additional acres of critical habitat for the survival of rare and endangered species.

Through creative techniques like debt-for-nature swaps, we are also saving millions of acres of tropical rainforest throughout Latin America and the Caribbean.

On these protected acres raptors, like this bald eagle, return each year to breed the next generation. Trout return to the stream to spawn. Bison and antelope return to the grasslands to calve.

Join us, and make an investment in our natural heritage. Future return: isn't that what investment is all about?

The Nature Conservancy

Conservation Through Private Action

For more information, call toll-free 1-800-628-6860.
(or write The Nature Conservancy, Box PSA, 1815 N. Lynn Street, Arlington, VA 22209)

Celebrate A Successful Merger.

THE DIAMOND ANNIVERSARY BAND.
Whether it's your 1st, 5th or 10th anniversary this year, tell her you'd marry her all over again.
A diamond is forever.

DeBeers

JCPenney

IS THERE A MINI BLACK HOLE SITTING ON THIS PAGE?

Some scientists believe that billions of tiny black holes may lie scattered through space. It's conceivable that one could appear anywhere—even on this page right now. Because although a mini black hole is no bigger than an atomic nucleus, it contains the mass of an entire mountain!

INTRODUCING VOYAGE THROUGH THE UNIVERSE FROM TIME-LIFE.

Visit a neutron star or black hole in this fascinating library from TIME-LIFE: VOYAGE THROUGH THE UNIVERSE. Send for your first volume **Stars**, *where you'll explore the wonders of black holes, pulsars, supernovae and red giants. Continue your adventures with* **The Far Planets, Life Search, Galaxies, Outbound, The Cosmos** *and other volumes. Receive one book about every other month* **FREE** *for 10 days. Keep it by paying just $14.99 plus shipping and handling.* Buy only the books you like. Cancel anytime. To order call toll-free between 11 a.m. and 11 p.m. EST. Or write: TIME-LIFE BOOKS, Branch EDBVH9, Box C-32067, Richmond, VA 23261-2067. And begin your voyage now. Call now to order:*

1-800-553-3488

*In Canada volumes are $18.99 each. All orders subject to approval. Price subject to change.
© 1991 Time-Life Books, Inc.

TIME LIFE BOOKS

cism and has worked to clean up its act."

As Cargill looks ahead, three issues loom large. Choosing a successor to Whitney MacMillan will probably be the least troublesome. The corporate restructuring announced in May positions several new sector heads—most of whom are in their late 40s or early 50s—as contenders for the top slot. Cargill has a strong bench.

If it is to meet challenge No. 2—doubling its net worth every five to seven years—Cargill will have to raise that figure to $7.2 billion by 1999, a daunting prospect. Can this patient tortoise still triumph over the fleet-footed hares of the world? Cargill's innate temperance kept it on the sidelines during the expensive takeover wars of the 1980s. Says President Heinz Hutter: "We're very glad that we didn't participate in that craziness."

But caution has its drawbacks. Cargill was late getting into the chicken business, where it was out-hustled by entrepreneurs like Frank Perdue. It missed out entirely on the now enormous potato market (just think of all those McDonald's French fries). And it is only now considering an entry into fresh fruit and vegetables.

CARGILL heads into the mid-1990s with a ton of cash and a superb credit rating. But the $730 million in debt it took on to finance the ESOP won't soften its ultraconservative approach to acquisitions. Isn't it time to abandon the third great challenge—keeping the company in family hands—and to consider going public? Even if the stock market priced Cargill at just 1.5 times book value, the founding families would, in an instant, be nearly $2 billion wealthier. The company would also be able to finance acquisitions with stock, not just cash and debt.

But the families, satisfied by their sale to the ESOP, are not hankering for more liquidity. An investment that has grown 12.2% annually over the past half-century is hardly a bad place to stash your cash. As for the company, were it to list on the stock exchange, it would undoubtedly be pestered by security analysts and pension fund managers demanding that it steer clear of depressed businesses like steel and unstable countries like Brazil. Ask Whitney MacMillan if Cargill will need to go public anytime soon, and he offers a typically expansive reply: "No." Given this company's extraordinary longevity and the determined way it has prepared for change, there is a good chance that the laconic billionaire has got it exactly right. F

'THEM'

How Europe's hostility to immigrants hurts its drive for unity and greater economic power. ■ *by Carla Rapoport*

GIANNI GIANSANTI—SYGMA

EUROPE'S euphoria over the collapse of the Berlin Wall three years ago has given way to fear, insecurity, and rising hatred. Fascists have won elections in France, bitter strikes have hit Germany, and open warfare rages on the Continent for the first time since 1945. In Italy a young Mussolini has entered Parliament, and Germany has a crop of fresh-faced Nazis. Blame it partly on the current economic downturn. But to find the biggest cause of trouble in the European Community and the countries immediately surrounding it, look at the faces on this page. They belong to immigrants fleeing war, poverty, repression, or all three.

For U.S., Japanese, and European multinational companies that have been banking on a unified market across Europe, the wave of immigrants—and the reaction to it—is bad news. The goal of closer political union among the 12 members of the EC now looks tenuous. Many Europeans worry that greater unification will result in extension of too many rights (like voting) to immigrants and their children. These jitters are fast derailing plans for a more federal-style European government and harmonization of labor practices. They could even slow down plans for a unified European currency.

The refugees are arriving—and looking for work—just as the region's largest employers are eliminating jobs and shifting manufacturing to low-wage countries. Hundreds of thousands of immigrants are coming into Western Europe from places like Somalia and Sri Lanka as well as Romania, Bulgaria, and war-torn Yugoslavia. With unemployment rates averaging 9% across Europe, prospects for high school graduates, let alone for relatively untrained immigrants, are poorer than they've been for years.

Many political experts and academics now believe that the wave will grow, with five million or more economic and political refugees hoping to crowd into Western Europe over the next three to five years. "The instability in Europe today is unprecedented," says Susan Woodward, visiting fellow at the Brookings Institution in Washington, D.C. Adds Jean-Claude Chesnais, head of demography at the National Institute for Demographic Studies in Paris: "We are apparently witnessing the start of a long period of chaos."

Refugees from Yugoslavia, Vietnam, Russia, and Nigeria await processing in a camp in Austria.

No welcome: fleeing arson at an Italian camp

Western Europe's 17 million immigrants already make up nearly 5% of the population, including four million North Africans and Turks, many of whom came as so-called guest workers decades ago. That percentage is expected to rise quickly. In France, Germany, and Sweden, foreign-born children make up more than 10% of primary school enrollment.

As the number of foreigners grows, tolerance toward them is melting away. Shocking as this hostility seems, it is not hard to see why even the most open-minded Europeans are worried. The civil war in Yugoslavia has prompted the worst refugee crisis since World War II. Some 1.7 million people have been forced from their homes because of the fighting. So far, an estimated 375,000 of them have escaped the country and have found their way to makeshift refugee camps from Hungary to Sweden.

The same seeds of the Yugoslav war—ethnic rivalries, economic hardship, and plentiful weapons—exist in Romania and many of the former Soviet Republics, especially Ukraine and Moldova. Even if war doesn't break out, many minorities will flee rising persecution. Says Chesnais, the demographic expert in Paris: "Nationalist sentiments, having been suppressed by the fictional notion of international socialism, are now resurfacing."

BEYOND POLITICS and persecution, Western Europe can expect a crush of economic refugees. Millions are losing their jobs in the rough passage from communism to market capitalism. Chesnais estimates that about five million workers could be jobless within the next few years in Poland. In the former Soviet Republics, the total could top 40 million. In the Muslim nations of North Africa, the unemployment rate is above 20%, and per capita GNP ranges from $700 to $2,500.

The rising tide of immigrants is already most dramatic in Germany. Nearly every city now has a refugee camp encircled with a chain link fence. Newcomers are being jammed into abandoned army barracks, or even the portable shelters normally used on building sites. More than 250,000 foreigners arrived last year, twice the number in 1990. This year the figure is expected to top 450,000, bringing the number of foreigners seeking residence in Germany to more than 1.2 million. These figures do not include the 1.2 million ethnic Germans who have already come into the country from Poland, Romania, and the old Soviet Republics since 1988.

Up to now, Germany has been wide open to immigrants. As a penance for Nazi atrocities, West Germany agreed to provide food, shelter, and pocket money to anyone seeking asylum at its borders. While only a small percentage are eventually allowed to settle in Germany for good, the state often ends up supporting applicants for as long as seven years while appeals are heard. During this period, they are not allowed to work.

With the costs of unification now soaring out of sight, Germans from Frankfurt to Dresden have become increasingly angry about the alleged abuse of their system. Once the powerhouse of Europe, Germany's economy is sputtering, the inflation rate is rising, and short-term interest rates are twice those of the U.S. The cost of taking care of refugees is beginning to look perilously high.

As immigrants pour in, Germans awake nearly every morning to fresh announcements of job reductions by major employers. Nearly every famous German name is cutting back hard. Daimler-Benz wants to eliminate 20,000 jobs over the next two years; Volkswagen hopes to reduce employment by 12,500 in the same period. BMW, which plans to cut 3,000 jobs in Germany, is now considering its first U.S. plant. Other big German manufacturers are adding new facilities in Southeast Asia and Latin America.

The combination of anxiety about jobs and the very visible and growing presence of foreigners has been politically explosive. The scariest reaction has been the rise of an evil breed of young neo-Nazis. Totaling about 4,000 members nationwide, they specialize in arson, swastika-daubings, muggings, and, occasionally, murders of asylum seekers.

Most Germans roundly condemn the neo-Nazi hooliganism, but they are often more tolerant of other new right-wing parties. In Bremen, where foreigners now make up 20% of the

THE COMING ONSLAUGHT
Immigration into Western Europe in the next five years
BRITAIN
GERMANY
FRANCE
Western Europe
ITALY
PORTUGAL
SPAIN
Africa
Two million to three million ethnic Germans are likely to head for the Fatherland from Poland and Russia, Ukraine, and other former Soviet Republics
Two million to five million East European and former Soviet citizens could seek legal entry to Western Europe
One million legal immigrants are expected from Turkey and Africa, Asia, and Latin America
Up to 500,000 illegal immigrants could come from all over

Muslims from North Africa pray in Naples, Italy. Scenes like this are unnerving many Europeans.

population, six members of the extreme right-wing German People's Union were elected to the state assembly earlier this year, largely by young voters. In April the party won 6% of the vote in Schleswig-Holstein in northern Germany.

In the southwest region of Baden-Württemburg, home of the industrial city of Stuttgart, the anti-immigrant Republican Party took 12% of the vote in the April elections, pushing Helmut Kohl's Christian Democrats out of the majority in that district for the first time in 20 years.

THOUGH GERMANY seems in no danger of a Hitler revival, the new right wing should be taken seriously. Travel down to Bavaria to meet the leader of the Republican Party, Franz Schoenhuber, 69, former Waffen SS soldier, journalist, and author. If Schoenhuber is the devil, he's the devil you'd have lunch with. He's fluent in five languages (he acquired Russian as a prisoner of war), loves Italian food, speaks perfect English, and complains about being lumped with bad guys like Hitler. His first wife, he wants you to know, is half-Jewish.

Jews, says Schoenhuber, should be let in, along with ethnic Germans and trained Europeans, like Italian cooks and Spanish architects. But not Muslims, most dark-skinned people, or any of the unwashed unless they can prove German heritage. Says he: "The whole of Germany is crowded together like Manhattan and the Bronx. We don't have room." Schoenhuber advocates a quota system, a tighter version of that used in Britain or the U.S. His parting shot concerning national guilt: "The next time I see President Bush, remind me to ask him about the Indians."

Right-wing parties in France are also gaining ground on anti-immigration platforms. Jean-Marie Le Pen, founder of the racist National Front party, has never been more popular. He personally won 31.1% of the vote in Nice in last March's regional elections, and his party took 14% of the vote nationwide, four percentage points better than its showing in 1986. Le Pen's party also broke the dominance of the Communist Party in working-class suburbs of Paris.

France has stricter laws than Germany about who can be granted asylum. But once refugees get in, gaining citizenship is relatively easy. About two million have been naturalized in recent years. Even if they haven't yet been naturalized, immigrants receive unemployment benefits.

In Italy, where the unemployment rate is around 11% and many big companies have reduced workers' hours, the immigration issue is equally explosive. Right-wing parties have used the issue to gain ground. One of them, the Northern League, now has 80 deputies and senators in Parliament, up from just one five years ago. And Alessandra Mussolini, granddaughter of the Fascist dictator, was elected to Parliament this April as a member of the neo-fascist Movimento Sociale Italiano. Both parties say their motives have nothing to do with racism. Says Mussolini: "In Naples there are plenty of black immigrants, but we have to look after the interests of our own young people first."

Looking ahead, some demographic experts argue that Europe will need the workers it now rejects. According to Bernd Hof, an economist at the German Enterprise Institute in Cologne, Germany needs 300,000 immigrants a year to keep the work force stable. Other European countries—even Italy has zero population growth—face shrinking work forces as well. Hof believes that Belgium, Denmark, Holland, Greece, and Spain will start seeing work forces shrivel within this decade. Britain will reach that point in 2007. The anti-immigrant politicians brush off such warnings. Says Schoenhuber: "Untrained immigrants can't support the German social system." Others, though, think the newcomers can be trained. Whatever their political stance, nearly all Europeans agree that they badly need an immigration policy. Until one can be achieved, expect more chaos on Europe's borders.

REPORTER ASSOCIATES *Allison McCormick and Kevin Moran*

WHERE THEY COME FROM

COUNTRY POPULATION in thousands (12/31/90)	TOTAL LEGAL IMMIGRANTS	LEGAL IMMIGRANTS AS A % OF TOTAL POPULATION	EASTERN EUROPE & FORMER SOVIET UNION	NORTH AFRICA & TURKEY	OTHER (including other West European countries)
Germany* 77,555	5,241.6	7%	1,036.7	1,775.1	2,430.0
France 56,184	3,607.6	6%	N.A.	1,613.6	N.A.
Netherlands 14,864	692.4	5%	17.5	363.7	311.2
Belgium 9,895	904.5	9%	5.8	243.5	655.2
Italy 57,657	781.1	1%	99.3	127.9	553.9
Britain 57,121	1,875.0	3%	237.0†	N.A.	1,638.0†
Switzerland 6,628	1,100.3	17%	156.0	71.1†	873.2
Austria 7,595	413.4	5%	150.8	N.A.	262.6

*Data for Germany as of 9/30/90; last available figures for U.S.S.R. and Czechoslovakian emigrants from 12/31/89. †1989.

SOURCE: DATA FROM NATIONAL GOVERNMENTS AND THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT